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Nova Scotia

Report of the

AUDITOR GENERAL

March 31, 1987

Nova Scotia

Honourable A.R. Donahoe, Q.C.
Speaker
House of Assembly

I have the honour to submit herewith for the year ended March 31, 1987, my Annual Report to the House of Assembly, in accordance with Section 8 of the Auditor General Act.

Respectfully submitted

O.P. Cormier, F.C.A.
Auditor General

Halifax, Nova Scotia
January 27, 1988

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INTRODUCTION

Introduction

Although this year's Report does not deviate significantly in organization and format from my three previous ones, there are two developments worth noting.

One is the more extensive treatment of the role and responsibilities of the Auditor General. This has been done to promote a greater understanding of what this Office does and should do in fulfilling its mandated responsibilities. To accomplish this, a description is provided of the objectives of the Office, the types of audits we perform, the roles of internal auditors and private-sector audit firms, and a commentary on the need for independence — a topic discussed in prior years' Reports.

Second is the inclusion of four articles which represent follow-up reviews to special assignments reported upon previously. The degree of acceptance and action taken in response to our suggestions and recommendations is most encouraging. In my view, it seems to demonstrate the usefulness of these special audit assignments.

This Annual Report continues the discussion of the accountability process with commentary on each of the four steps — the Estimates, the Public Accounts, the audit function, and the Public Accounts Committee. There are two initiatives to be acknowledged relating to the process.

- The proposed amendments to the Auditor General Act which I have suggested to Government are now under consideration by the Cabinet Committee on Legislation. Revised legislation for the 1988 Session of the House is contemplated.

- The Public Accounts Committee now has an Opposition Member as Chairman, and a substantive report on its proceedings was prepared in 1987 for the first time in many years.

Two articles warrant mention in this Introduction. The one on Financial Position and Operating Results continues our presentation of selected financial analyses and commentary, supplemented by graphs. In this article, I comment on certain Government initiatives relating to its efforts to reduce the operating deficit.

The other is the section entitled "Status Prior Years' Observations and Recommendations", a feature introduced in my 1986 Report. This provides a convenient reference to the action taken on important topics from previous Annual Reports.

In addition to the four articles on follow-up reviews to previous audits, there are ten others relating to what we term special assignments. These represent complete in-depth reviews, or the initial phase, in crown agencies, departments or on a government-wide basis. It is my conviction that this type of assignment, concerned more with the management of a function, operation, project or program, is the most beneficial we can undertake. This results in more meaningful reporting to the Legislature of how well Government departments or agencies are fulfilling their responsibilities.

* * * * * *

The mode of reporting for my Annual Report is one which might be termed "reporting by exception". It is necessary to comply with the reporting requirements of Section 8 of the Auditor General Act, as well as those which flow from Sections 7 and 16. Accordingly, the majority of audit findings and comments included point to shortcomings and weaknesses, and indicate suggested corrective action.

However, I would like to repeat the comment I made each of the last three years — the majority of our departmental audit reports contain positive findings and conclusions resulting from our audit assignments. To provide a more complete perspective of our audit activities during the year, listings of all audits we performed are included in this Report as Appendices II and III. By comparing the extent of the commentaries found in the three sections relating to crown agency audits, special departmental reviews, and other audit observations with the 64 audits listed in these two appendices, the reader can conclude that the majority of our audits did not result in reportable findings and conclusions.

* * * * * *

The excellent cooperation extended to our auditors, in the performance of their assignments, by the officials and staff of government departments and agencies is graciously acknowledged. In addition, I would like to express my gratitude for the assistance provided us for various administrative and support activities by the Civil Service

Commission, Management Board, the Departments of Finance and Government Services, and the Systems and Computer Services Division of the Department of Government Services.

Above all, I thank my staff — both audit and administrative — for their continued cooperation and performance. The professional manner in which they have carried out their increasingly complex assignments is a tribute to their abilities and devotion.

* * * * * *

SUMMARY

Summary — 1987 Annual Report

This summary presents the principal matters dealt with in the Report. It notes key observations, conclusions and recommendations, but does not include all matters to be found in the Report.

Audit Responsibilities

This section includes a more detailed presentation than previous years on the role of the Auditor General, including the objectives of the Office; its principal audit activities in the areas of attest audits, compliance audits, and broad scope audits; the reporting process, both the Annual Report and reports to departments and agencies of government; and the distinctive roles of internal auditors, and private auditing firms who perform audits for Government.

Also included is a commentary on the subject of independence as it relates to an Auditor General and recommendations for amendments to the Auditor General Act. Four principal areas will require consideration by Government for possible revision to the Act — the formation of a multi-party Committee of the Legislature to assume responsibilities for matters relating to this Office; the authority and responsibility to perform certain transfer payment reviews for grants and assistance; a clear enunciation of the mandate to perform broader scope audits in crown agencies and departments; and the audit of the Public Accounts of the Province.

This section, under five captions, describes the scope of the audit work performed by this Office during the year.

Accountability and Management

This section continues the discussion of the three previous Annual Reports dealing with the accountability process. The four steps in this process — the Estimates, the Public Accounts, the audit function and the Public Accounts Committee are each described briefly. Certain of the more significant matters from this discussion are as follows.

- A greater use of performance or result indicators would assist in the effectiveness of the Estimates process.

- Under the Public Accounts caption, there is a tabulation of several accounting and disclosure matters which do not fully comply with the recommendations of the Canadian Institute of Chartered Accountants, Public Sector Accounting and Auditing Committee.

- With respect to the audit function, a critical matter mentioned in prior years has been the need for amendments to the Auditor General Act to reflect more contemporary responsibilities and expectations. The Cabinet Committee on Legislation is presently considering my most recent submission of suggested amendments, with a view to preparing revised legislation for the 1988 Session of the House.

- I have noted recent improvements with respect to the Public Accounts Committee, namely the appointment of an Opposition Member as Chairman, and the preparation of an Annual Report. There are recommendations regarding the formal enunciation of role and responsibilities, and the use of formal agendas.

In the article on Management of Government Resources, I acknowledge recent initiatives including the three-year program for budget deficit reduction. This section includes a commentary on three recent studies of the Canadian Comprehensive Auditing Foundation, which relate to the need for improving accountability with respect to the use of government resources, and the effectiveness with which these resources are managed, both by Government and those who receive Government grants and assistance.

Financial Position and Operating Results

This section deals with financial matters such as the Province's net debt, its annual operating results, and commentaries on selected expenditure items. Although the size of both the Province's debt and its annual operating deficits are of concern, I acknowledge recent efforts to reduce the deficit, particularly the introduction of the three-year deficit reduction plan. I reiterate that because of the Province's existing financial position, all demands cannot be met, and spending requests will have to be as realistically priorized as possible.

Additional appropriations for the year are commented upon here, and it is noted that there has been a significant decrease in their use during the current fiscal year.

Crown Agencies and Corporations

Our Office reviews the auditors' reports on all crown agencies and corporations not audited by us. Findings from this review include:

— an audit qualification on the December 31, 1986 financial statements of the Workers' Compensation Board;

— two cases where no financial statement audits were conducted, Schooner Bluenose Foundation and Sherbrooke Restoration Commission; and

— the fact that most crown agencies and corporations have their audited financial statements published in the annual Public Accounts of the Province.

I repeat my comment from previous years that there is a need for legislation to apply to all crown agencies and corporations that would include certain requirements relating to accountability, and a more precise definition of the status of such entitites.

In addition, we completed the following special audit reviews.

- Nova Scotia Liquor Commission — We conducted a follow-up to the in-depth assignment conducted in 1984. We found that the Commission had initiated significant action on the principal suggestions and recommendations we had made.

- Nova Scotia Municipal Finance Corporation — This was our first review of the crown corporation. We made recommendations with respect to the Reserve Fund, composition of the Board, revisions to the Municipal Finance Corporation Act, and other matters.

- Sherbrooke Restoration Commission — This was our first review of the operations of the Commission since its establishment. We have recommended that its operations be subject to an annual audit, and that improved controls over historic and scientific objects be introduced.

- Waterfront Development Corporation — This was our first review of the operations of this Corporation since it was established. Our review of the management of the Corporation,

particularly with respect to land sales, indicated that the management and administrative processes employed were not inappropriate.

Special Departmental Reviews

Certain of our more extensive and worthwhile audit endeavours concern the management of specific functions on a government-wide basis or in an individual department or agency. During the past year, we conducted ten of these special assignments — five of which were in-depth reviews; two were the first phase, to be completed in a subsequent year; and three were follow-ups to audits previously completed.

The results of our in-depth reviews may be summarized as follows:

- Consumer Affairs — We reviewed operations of the Debtor Assistance section and Amusements Regulation Division. We concluded that these two operations are well-managed, and result indicators are being utilized to measure performance.

- Provincial Tax Commission — We conducted an examination of four principal aspects of its operation — the account monitoring function; the appeal process; the vendor audit function; and a review of controls over computer resources.

  Our overall conclusion was that their operating policies and practices were generally adequate, and that audit coverage by the audit section was satisfactory. We identified areas where improvements should be made, including:

  — better information on overdue accounts to ensure consistent application of collection criteria and a closer monitoring of accounts;

  — efforts to ensure that appeals are processed promptly;

  — staff training for auditors; and

  — correction of certain control deficiencies in their computer operations.

- Medical Services Insurance — We performed a review of the administration of this program by Maritime Medical Care Corporation, with particular emphasis on — the processing and

audit of claims; their internal audit function; the allocation of expenses between the Corporation's private sector operations and the MSI program; and controls surrounding the Corporation's computer operation.

Our more significant findings are that:

— the allocation of expenses between the MSI program and the Corporation's private sector business appeared to be equitable;

— certain minimum control standards were not being met in their computer operation;

— controls over the receipt, assessment and payment of claims were satisfactory, except for certain weaknesses in the verification process;

— deficiencies were identified in the audit of claims; and

— there was a serious void in internal audit, resulting in our recommendation that there be an independent audit structure reporting directly to the Department of Health.

- Office of the Fire Marshal — The objectives were to determine whether the Office was fulfilling its legislative responsibilities as outlined in the Fire Prevention Act, and other relevant acts and regulations; and to assess the adequacy of the systems in place regarding inspection activities.

  Our principal conclusions were that:

  — the Office of the Fire Marshal has not performed fully its role regarding inspections for fire hazards, largely due to resource limitations;

  — certain inspection schedules are determined more by licensing requirements, than by fire risk, and the time intervals between inspections for certain buildings seem unduly long; and

  — further deficiencies were noted with respect to the promptness of follow-up, and the adequacy of information.

- Review of Recipients' Management of Grants and Assistance — To determine whether departments providing assistance and grants were evaluating the management of these funds by recipients, we reviewed the practices of four — Education, Health, Municipal Affairs and Social Services. We found that three of the four, all except Education, go beyond pre-expenditure control and compliance review. However, we recommended more intensive, regular and broader scope activity that will assess how well these funds are being managed for economy and efficiency of utilization.

We completed the first phase of two special reviews.

- Department of Health: Hospitals — Because of the magnitude of health care costs, we decided to obtain a better understanding of the organization, management practices and policies relating to hospital operations. This was accomplished by a series of discussions with management personnel at the Halifax Infirmary, and officials of the Department of Health. This information base will be used to develop audit approaches and criteria for further audit efforts in this area.

- Result Indicators — On the basis of interviews with Management Board staff and a questionnaire sent to all Departments, we determined that the result indicators process is not being as widely utilized as had originally been intended; and that there are basic misunderstandings between Management Board and the Departments concerning the purpose of this process.

We performed follow-up examinations to three special assignments conducted in previous years. The results were encouraging, in that there has been a significant amount of action towards implementing our recommendations.

- Cash Management — Although the time span is relatively short since the submission of our report on this subject to Government in early 1987, there have been worthwhile initiatives directed towards the improvement of the cash management function, some of which are:

  — a planned reorganization and augmented staffing for the Trust and Debt Management Division of the Department of Finance;

— a plan to formalize cash management policies and guidelines;

— the formalization in the 1987-88 Estimates process of the three-year forecast of cash requirements, as part of the planned deficit reduction program;

— continuing efforts to minimize excess cash balances throughout Government; and

— effective April 1, 1987, the charging of interest on overdue health services tax accounts.

- Internal Audit — On January 5, 1988 Management Board issued a Policy Statement on internal audit, enunciating four basic policies in response to recommendations made by our Office last year. New internal audit positions have been staffed, or preliminary steps taken to staff them, in five departments of government. Further improvements are necessary relating to:

  — expansion of audit scope into the areas of economy and efficiency of operations;

  — long-range planning by internal audit groups, including meaningful risk analysis and priorization of audit coverage; and

  — training and development for internal auditors in several departments of government.

- Tourism: Resort Hotels — Substantial progress has been made by the Department in implementing the recommendations from our 1985 report to the Department. Notable among these are:

  — the presentation of a statement of revenue and expense in the Public Accounts for the 1987 fiscal year, and plans for a full set of financial statements in subsequent years;

  — improvements in the management information systems, including the use of several new operational ratios, the development of a five-year capital improvement plan, and a three-year marketing plan;

— implementation of many of the recommendations relating to facilities and property management; and

— action on various accounting and financial procedures, including the expansion of internal audit activity for the resort hotels.

Other Audit Observations

The audits performed by my Office during the year are tabulated in Appendices II and III, which include the 30 audits in 12 departments, and the 34 financial statement opinion audits. This section of the Report may be termed "reporting by exception", discussed briefly in the Introduction. Some of the more significant matters follow.

Accounting Function Performance — During the past year we found the degree of readiness and the preparation of material, by clients for our financial statement audits, to be unsatisfactory in a number of cases. This is having a significant impact on our ability to complete, on schedule, other planned audits. We are therefore introducing procedures, which could include extra billing, to remedy this situation.

Computer Related Audits — We conducted a government-wide assignment to assess controls in the areas of password access security, and disaster recovery and contingency planning. We reviewed computer operations and systems at the Department of Health, and completed update reviews of the general environmental controls at selected minicomputer sites. We commenced an examination of the password access security package installed at the Provincial Data Centre.

Overall, we have concluded that information system controls are reasonable. Progress has been made addressing control deficiencies previously identified by our Office. However, there remain areas where procedures should be further improved, principally password access security, and disaster recovery and contingency planning.

Provincial Retirement Plans — The Auditor General audits both the Public Service Superannuation Fund and the Nova Scotia Teachers' Pension Fund annually. However, a qualified actuary has the responsibility for assessing each Fund's position in relation to future

pension commitments. In view of the importance of these commitments, it has been customary to comment each time that an actuarial valuation is performed.

A valuation of the Public Service Superannuation Fund as at March 31, 1987 was completed. This showed an improvement in the unfunded liability in comparison with the last valuation, and a continuing excess of contributions to the Fund over the cost of benefits being earned.

Although there was no actuarial review of the Teachers' Pension Fund during the year, my Report includes a commentary on it. In August 1987 contribution rates were increased so that the cost of benefits currently being earned are now provided for by the combined contributions to the plan by teachers and government. I reiterate my concern for the large unfunded liability, and also the interval between the effective dates of actuarial valuations and the release of the actuary's reports. A new information system currently being implemented should reduce many of the administrative problems in the preparation of the actuarial valuations.

Reservations of Opinion — Two entities, for which I am the appointed auditor, had serious weaknesses in their accounting and control systems. I was unable to express an unqualified audit opinion on their financial statements for the March 31, 1987 fiscal year. One was the Public Trustee, where the accounting and control systems for certain assets under administration were deficient. This is similar to the situation encountered in 1986. In addition, there were other serious deficiencies in the performance of the accounting function, largely due to the lack of accounting expertise of the staff. Unfortunately, it was not until May 1987 that a qualified person was hired to direct the accounting function.

The second situation related to the financial statements of the Victoria General Hospital. Certain accounting routines, principally inventory, have been unsatisfactory for several years. This condition deteriorated significantly in the current fiscal year to the extent that the Hospital's management provided a qualified management representation letter. Accordingly, I was required to deny an audit opinion on the year's financial statements.

Transportation — Equipment Parts Inventories — An audit of the large equipment parts inventories at the Department's Miller Lake site, as well as at certain divisional offices, indicated that these inventories

were higher than they need to be. We arrived at a similar conclusion for the inventories of non-parts such as maintenance materials, gravel and signs at various divisional locations throughout the Province.

We have recommended to the Department that they develop policies and quantitative guidelines for the inventory system; reconsider their accountability assignments for inventory management responsibilities; and upgrade their computer information capabilities to provide more timely and useful data.

Status Prior Years' Observations and Recommendations

This section is a tabulation of observations and recommendations from our Annual Reports for 1981 to 1986 inclusive. It is worth noting that 15 items from both last year's status report and the articles in my 1986 Report have been acted upon. There are 25 items for which the comment still applies, and/or the recommendation has not been implemented.

Office of the Auditor General

This section includes information on staffing, financial results, various professional and training activities of the Office, and other related matters.

Appendices

Appendix I reproduces certain relevant sections of the Auditor General Act. Appendices II, III and IV tabulate audits done by my Office and those performed by private sector auditors.

* * * * * *

AUDIT RESPONSIBILITIES

Role and Responsibilities of Auditor General

Introduction

In this year's Report, I have included a more extensive description of the role and responsibilities of the Auditor General, and the auditing environment within which our Office functions. This is being done for several reasons.

Primarily, it is to provide a greater degree of understanding of what this Office does and should do in fulfilling its mandated responsibilities. The description of the functions performed by internal auditors and external auditors in comparison to ours should help to explain their respective roles. An appreciation of certain of my proposed amendments to the Auditor General Act should be enhanced by this presentation. Finally, and perhaps most significantly, this description will serve to strengthen an understanding of the accountability process in Government, a topic dealt with separately in a following section of this Report.

To provide this broader coverage, four topics are discussed.

Role of the Auditor General
Independence of the Auditor General
Participants in the Audit Process
The Auditor General Act

Role of the Auditor General

Objectives — The primary goal or objective of the Auditor General is to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

In order to achieve this goal, the Auditor General examines the accounts of the Province and presents an Annual Report to the Legislature each year. This Report is then discussed with the Legislature's Public Accounts Committee.

A secondary objective of the Auditor General is to assist Deputy Ministers and agency heads in holding their administrators accountable

to them, by reporting on the quality of the stewardship of public funds in the department or agency.

This objective is not articulated in the Auditor General Act, but it is a logical extension of our primary objective. It is achieved when we report to the Deputy Minister or agency head at the conclusion of an audit. These reports include assessments of the significant areas audited, as well as our recommendations for improvement.

Activities — The audits performed by this Office fall into three categories — attest, compliance, and broad scope.

Attest Audits

Attest or financial statement audits are the ones with which the general public is most familiar. They involve the expression of an opinion on a set of financial statements as to whether the results of operations and financial position of the entity have been fairly presented in compliance with its stated accounting policies, and whether such policies are consistent with those used in the previous year.

An important aspect of attest audit work is the study and evaluation of internal controls. Internal controls are the systems and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. Section 7 of the Auditor General Act (reproduced in Appendix I) gives the Auditor General responsibility for ascertaining whether essential records are maintained and procedures are applied regarding revenues and expenditures, and the safeguarding of public property.

We assess the internal controls in government departments, although the attest audit opinion on the Public Accounts is given by a firm of private sector auditors. The Auditor General also expresses an opinion on the financial statements of numerous crown agencies and funds (see Appendix III).

Compliance Audits

Audits are performed in government departments and crown agencies to assess whether transactions and other aspects of operations comply with legislative and other requirements. These include Provincial Acts, Regulations of Government, Management Board policies, and directives of the departments and agencies.

These audits, performed on a cyclical basis, comprise a significant portion of our annual audit activities. Sections 7 and 16 of the Auditor General Act assign the Auditor General responsibility for conducting compliance audits.

Broad Scope Audits

Broad scope audits focus on the actual management of a functional area, including programs and projects. More specifically, these audits are designed to determine whether:

— the program or activity under review is economically administered, with goods or services being obtained in the proper quantities at the proper times and at economical prices;

— the work is performed efficiently making the best use of available human and material resources;

— reasonable attempts are made to measure and report on program results; and

— appropriate and timely information is available to management for decision-making purposes.

It is important to note that the Office does not evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery. These functions should be performed by management of the department or agency. The Office assesses the extent to which management has carried out these functions.

Such audits have been conducted regularly by this Office, and several are reported upon in this Report. They include three distinct types of audit:

— an in-depth review of a given activity or program within a department (e.g. Provincial Tax Commission, page 85);

— a government-wide review of an activity or function (e.g. Result Indicators, page 108); and

— an evaluation of the overall management by a crown corporation of its legislated responsibilities (e.g. Nova Scotia Municipal Finance Corporation, page 70).

Reporting Process — The annual reporting responsibility of the Auditor General to the House of Assembly is set forth in Section 8 of the Auditor General Act, which is reproduced in Appendix I.

The Public Accounts are tabled in the House of Assembly in accordance with provisions of the Provincial Finance Act, no later than the tenth day of sitting. The Auditor General's Annual Report is tabled on a day following this, usually in the third or fourth week of the Session. Subsequent to its tabling, the Report is discussed with the Public Accounts Committee, whose meetings are open to the general public.

A secondary objective of our work is to assist Deputy Ministers and agency heads in holding their administrations accountable to them. This goal is accomplished by issuing reports at the completion of all departmental and agency audits.

At the conclusion of each audit, the reporting process normally involves:

- discussing the draft report with senior officials of the department or agency;
- revising the draft report, resulting from this discussion or from review by senior management in our Office;
- issuing the final report to the department's Deputy Minister or, in the case of agencies, to the agency head and the Minister in charge of the agency; and
- further discussion of the report if requested by the department or agency.

The findings, observations, conclusions and recommendations included in the various articles in this Annual Report relating to specific departmental, crown agency and government-wide audits are all derived from previously issued audit reports.

Independence of the Auditor General

To enhance the independence of the position of Auditor General, I have suggested revisions to the Auditor General Act. These are presented in a section on the Act, beginning on page 30.

The Auditor General must be perceived to be independent from all sources of bias or interference by those who are affected by the Office's work. To ensure such independence, the Legislature has enacted the Auditor General Act to set out the mandate of the Auditor General. He is appointed by the Governor in Council, and may be removed upon the passing of a resolution to do so by the Legislature, carried by a vote of two-thirds of the Members voting on it.

Administratively, the Office of the Auditor General is separate from all Government departments and crown agencies. However, the resource requirements of the Office are subject to approval by Management Board, Executive Council and the Legislature.

Only if the Auditor General is truly independent of the Government will he be able to fulfill the role described above and report objectively to the Legislature. If the audit reports or the work underlying them are constrained in any way by the administration, the Legislature cannot be confident that it has been given the proper tools with which to hold the Government accountable.

Participants in the Audit Process

Internal auditors, private auditing firms (commonly referred to as public accounting firms), and the Auditor General participate in the audit process within government departments and crown agencies. A brief description of the role of each follows.

Internal Auditors

Internal auditors perform audits in their respective departments and agencies on behalf of management. Their responsibilities include auditing both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability. To avoid duplication of effort, the Office relies wherever possible on work and reports by department and agency internal auditors.

Internal auditors are employees of the department or agency, and support management by helping to ensure that control procedures are

reliable. They generally report to the respective department head and the deputy minister or, in the case of crown agencies, to the agency head.

In my 1986 Annual Report, on the basis of a government-wide review of the internal audit function, I presented a lengthy article describing our findings, conclusions and recommendations. A follow-up article to this review is on page 97 of this year's Report.

Private auditing firms

There are crown agencies and corporations whose annual financial statement audit is performed by a chartered accountant other than the Auditor General. Appendix IV schedules these.

Under Section 16 of the Auditor General Act, I am provided annually with the audited financial statements, and all reports to management prepared by their auditors. A summary of our review of these reports (usually termed management letters) is found in the article on page 64.

Also, the Act provides that my Office may conduct such additional examination and investigation of the records and operations of the agency as I deem necessary. Since this provision was enacted in 1973, it has not been possible to conduct reviews in all these agencies and corporations. In 1985, we prepared a five-year plan providing for a minimum of one audit examination in each crown agency and corporation during that period. During 1987 three such examinations were completed, and these are reported upon separately beginning on page 70.

Nova Scotia is the only province in Canada which engages a public accounting firm to attest to its financial statements. Although my Office does not have the responsibility for expressing a formal audit opinion on the Province's financial statements, we do review them. On the basis of this review, we have stated in our Annual Reports since 1983, that the financial statements are an appropriate presentation of the Province's financial position and operating results.

Auditor General

Sections 7 and 8 of the Auditor General Act contain the basic auditing and reporting responsibilities of the Auditor General. These Sections are summarized on pages 31 and 32, and reproduced in Appendix I.

The fundamental distinction between the Auditor General and the two other types of auditors is that he is a servant of the House of Assembly. Not only are his rights, duties and responsibilities enunciated in legislation, but he is required to report annually to the House and meet with a standing committee of it.

This process is part of the British Parliamentary system, found in all Canadian provinces and at the federal level, as well as in most other democracies. Over a century old, it is an essential part of the accountability process for a democratic government.

The Auditor General Act

The Auditor General Act was proclaimed in 1973, and minor revisions were made in 1976. In August 1987, I presented Government with a formal submission containing proposed amendments to the Act, together with explanatory and supportive comments. This followed similar submissions made in both 1985 and 1986 which were not acted upon.

I have recently been informed that the Legislation Committee of Cabinet currently is reviewing my submission, with a view to preparing revised legislation for the 1988 Session of the House of Assembly.

Four principal areas in the Act which I have asked the Government to consider revising are described below.

- Independence — To ensure the degree of independence described on page 30, I have suggested that a Committee of the Legislature assume responsibilities for the following matters relating to the Office of the Auditor General:

  — an overview of administration and budgetary matters;

  — an annual expenditure audit;

  — a periodic review of the performance of the audit function; and

  — a role in the appointment of both the Auditor General and the Deputy Auditor General.

- Audit of Transfer Payments — To fulfill our role in the accountability process, perhaps the most important need is for this Office to have a legislative audit mandate to perform reviews where government grants and other assistance have been provided. Nearly 70% of the Province's expenditures are for grants and assistance provided individuals, institutions, corporations and organizations. It should be evident that there must be, as presently there is not, an opportunity for an examination of the recipient's operations to ensure that payments from Government are used as intended, and spent economically, efficiently and effectively.

- Broader Scope Audits — There should be a clear enunciation of the mandate for this Office to perform broader scope audits both in crown agencies and departments. These have been conducted regularly for many years, and there are several reported upon this year.

- Audit of Public Accounts — It would seem appropriate to reconsider the responsibility for the audit opinion on the financial statements of Government. Nova Scotia is the only Province in Canada which engages a public accounting firm to attest to its financial statements. Having our Office assume the audit responsibility would not only eliminate a significant duplication of audit effort and reduce cost to the Government, it would result in a more independent accounting to the Legislature.

Although the current Act has served the Office well, significant developments in recent years have dramatically altered the roles and expectations of legislative auditors. Most Canadian provinces have enacted revised legislation within the past ten years or so. Accordingly, it would seem appropriate for certain of these developments to be reflected in revised legislative provisions for the Auditor General Act of Nova Scotia. I hope that Government's current consideration of my proposed amendments will lead to more contemporary legislation.

Scope of Audit Examinations

The responsibilities for audit in Section 7 of the Auditor General Act state that the Auditor General is required to examine, in such manner

and to the extent he considers necessary, accounts relating to both money received and money expended, and to ascertain whether in his opinion:

— all public money has been fully accounted for;

— money has been expended for the purpose for which it was appropriated by the Legislature;

— the accounts have been properly kept; and

— essential records and procedures are maintained to safeguard and control public property.

The reporting provisions of Section 8 state that there must be brought to the attention of the House every case where:

— any person has wilfully or negligently omitted to collect or receive money belonging to the Province;

— public money was not fully accounted for and paid into the Consolidated Fund;

— any appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;

— an expenditure was not authorized or properly vouched or certified;

— there has been a deficiency or loss through fraud, default or mistake of any person;

— a special warrant authorized the payment of money; and

— any other case that the Auditor General considers should be brought to the notice of the House.

Sections 7 and 8 of the Auditor General Act are reproduced as Appendix I of this Report.

The scope of audit activity for my Office may be classified under five distinct headings, each of which is described below:

1) *Auditor General Act, Section 7 Requirement*

To meet the legislated requirements of Section 7, my Office conducts reviews of the accounting systems, controls, and transactions within the departments of government. These reviews involve tests of systems, accounting records, and other supporting evidence.

All systems in every department are not subject to annual audit. Although the audit work undertaken is selective, it encompasses sufficient activity in major departments to fulfill the mandate prescribed in Section 7.

To provide a perspective regarding the extent of the Office's auditing in the departments of government, a listing of 30 audits in 12 departments performed in the past year is in Appendix II of this Report.

Those topics, reported in "Other Audit Observations" beginning on page 126, represent matters from the audits on this listing for which there is a reporting requirement under the Auditor General Act. Comparison of the number of topics dealt with in this Report with the number of audits performed will indicate that only a small portion resulted in findings having to be reported to the House.

2) *Audits of Crown Agencies*

The Auditor General is the auditor of 34 crown corporations, boards, commissions, and funds. These appointments flow from the Acts of the entities, Order in Council appointments, or appointments made by the Boards of the entities. In each case, it is my responsibility to express an opinion on the annual financial statements of the entity.

A schedule of these audits may be found as Appendix III of this Report. Most of these financial statements are published in the Public Accounts of the Province.

3) *Audits by Other Chartered Accountants*

There are other crown agencies and corporations whose annual audit is performed by a chartered accountant other than the Auditor General. A schedule of these may be found as Appendix IV.

The Auditor General Act provides that my Office be furnished annually with both the audited financial statements, and all reports prepared by the auditors of these agencies and corporations. My Office reviews these audited financial statements, and the management letters or reports from the entities' auditors. The results of this review are included in an article on page 64.

Further provisions of Section 16 of the Act (see Appendix I) empower my Office to conduct such additional examination and investigation of the records and operations of crown agencies as we deem necessary. This we attempt to do cyclically at least once every five years.

During 1987, examinations were completed at Municipal Finance Corporation, Sherbrooke Restoration Commission, and Waterfront Development Corporation. As well, a follow-up to our 1985 audit of the Nova Scotia Liquor Commission was completed. These are reported upon separately beginning on page 67.

4) *Other Audit Assignments*

In addition to examinations performed under the Section 16 mandate, my Office usually conducts one or more special audit reviews of departments, crown agencies, or corporations under Section 7 of the Auditor General Act. These assignments may be an in-depth review of a given segment or program of a department or agency, or the review of a function that is performed in several departments, referred to as a government-wide or horizontal study.

Seven such assignments were performed in the current year, each of which is presented in this Report.

Department of Consumer Affairs	
Debtor Assistance and Amusements Regulations	(page 81)
Department of Finance	
Provincial Tax Commission	(page 85)
Department of Health	
Hospitals	(page 90)
Medical Services Insurance	(page 94)
Department of Labour	
Fire Marshal's Office	(page 102)
Result Indicators	(page 108)
Review of Recipients' Management of Grants and Assistance	(page 113)

In addition we performed updates to three previous audit assignments, namely — Cash Management (page 79), Internal Audit (page 97), Department of Tourism — Resort Hotels (page 119).

5) *Federal Provincial Cost-Sharing Claims*

My Office has the responsibility to certify claims for various cost-sharing programs of the Province with the Government of Canada. For the fiscal year ended March 31, 1987, a total of 582 claims were audited, relating to 17 separate agreements involving 165 projects.

It is our responsibility to determine that the departments concerned have complied with the terms of the agreements, and that the amounts claimed are in accordance with the agreements.

* * * * * *

ACCOUNTABILITY AND MANAGEMENT

The Accountability Process

Introduction

Previous Annual Reports have included articles describing each of the four steps in the accountability process: the Estimates, the Public Accounts, the audit function and the Public Accounts Committee. The principal reason for this was to explain more fully, and thereby enhance an understanding of, the role of the Office of the Auditor General.

This year, in a foregoing section, there is a more extensive treatment of the responsibilities and role of the Auditor General, and also a broader description of the audit process in the government sector.

Each of the four steps or elements within the accountability process is again described briefly in this year's Report, but an attempt will be made to present an updated point of view on each.

Estimates

The Estimates are the first step in the accountability process and, as the foundation for the other stages, may well be considered the most important. The Estimates summarize the Government's financial plan for the fiscal year and include revenue, operating and capital expenditure programs. They are presented to the House for debate and vote, and included each year in the annual Statutes.

In previous Reports I have commended the Government for its logical, well-organized budget submission which, in my view, contains appropriate detail for analysis and understanding of the activities and programs of Government Departments. I reiterate that it is essential for the Estimates to reflect, as accurately as possible, planned spending for the upcoming fiscal year. On occasion, circumstances will arise requiring modification to the original approved Estimates.

Two articles in this Report deal more specifically with the accuracy of the Estimates for the 1986-87 fiscal year. In the discussion of operating results on page 48, we noted that the actual expenditures for the year were 1.3% less than the original estimate, a highly satisfactory condition. In the article on additional appropriations on page 58, we noted that three departments needed to process additional appropriations for expenditures, which realistically should have been anticipated.

In my 1985 and 1986 Reports, I commented on the use of performance or result indicators as selected measures of the efficiency and/or effectiveness of programs and support activities. Although we recognize that all types of activity cannot be precisely measured, departments were strongly encouraged to use performance indicators where possible to facilitate improvements and productivity. During the current year we completed the first phase of a review of the use of performance indicators throughout Government. Their application was not as extensive as we would consider appropriate, nor the benefits as great as we would have expected from such an analytical management tool.

Although the Estimates process is reasonably performed by Government, two areas deserve continuing attention. One is to ensure that the projection of anticipated expenditures is realistic. The other is to encourage greater use of result indicators to supplement the Estimates process.

Public Accounts

The Public Accounts, as the Government's Annual Report on its financial stewardship, include financial statements for the fiscal year for the Province, as well as for crown agencies, corporations and funds; details on departmental expenditures and recoveries by principal function and program; and a supplementary volume detailing information on various departmental expenditures.

Although our Office does not have the responsibility for expressing a formal opinion on the fairness of the Province's financial statements, we do review them and it has been the practice in our Annual Reports, over the last several years, to describe any inappropriate accounting or disclosure practices. In spite of our taking a slightly different point of view on the handling of certain matters, we believe that for 1983 to 1987 inclusive, the audited financial statements are an appropriate presentation of the Province's financial position and its operating results.

In 1981 the Canadian Institute of Chartered Accountants formed a group known as the Public Sector Accounting and Auditing Committee to improve accounting and disclosure practices at all levels of government, principally provincial and federal. Since that time, the Committee has issued a series of Accounting and Auditing Statements for the government sector. As a result of the worthwhile initiatives of this

Committee, there has been a significant increase in the awareness of the need for better financial reporting by elected representatives, senior management, and audit communities associated with government. As well, there has been a marked improvement in the presentation of the Public Accounts of the various provincial jurisdictions in Canada.

The Committee is also engaged in further research and discussion on other topical matters relating to government financial statements such as the accounting for employee pension obligations, the government financial reporting entity, and the accounting for physical assets. These are difficult issues and there is no assurance that there will be a consensus which will lead to consistency of practice among the provincial jurisdictions.

A review of the financial statements of the Province in relation to the Committee's Accounting Statement 3 — General Standards of Financial Statement Presentation for Governments, indicates several disparities. We hope the Department of Finance will consider and decide if conformity with these principles can be achieved. The most significant of these differences are the following items.

- Concerning financial assets, certain items such as inventories and assets of a non-realizable nature are being included in the Statement of Financial Position as assets, whereas the Committee recommends to the contrary.

- The Statement of Current Revenue and Expenditure does not include capital expenditures, a practice recommended by the Committee and now followed by most other Provinces. Note that the final results of the year's operations as they effect net debt, and net cash requirements are not misstated in the Province's financial statements. This is because in both the Statements of Consolidated Fund Transactions, and Changes in Net Direct Debt, both current and capital expenditures are reflected.

- The Statement of Changes in Net Direct Debt includes some items which in most jurisdictions are classified as current operating expenditures. Examples of this are — provisions for doubtful capital advances, increases in the deficiency of net assets of Sydney Steel Corporation, and the increase in unrealized foreign currency loss.

Audit

Each of my two previous Reports discussed the audit function extensively and emphasized the need for ensuring independence of this Office and for a broader scope of audit activity. Associated with each of these was the suggestion that the Auditor General Act be amended to reflect more contemporary audit demands on, and requirements of, an Auditor General.

In this year's Report, the discussion on independence of the Office has been moved to the section on Role and Responsibilities, and will not be repeated here. I have been informed that the Cabinet Committee on Legislation is presently considering my most recent submission of suggested amendments to the Act, with a view to preparing revised legislation for the 1988 Session of the House. Encouraged by this development, I expect that the result will be the provision of a more contemporary legislative base for the operation of the Office of the Auditor General in Nova Scotia.

One significant matter which bears repetition here is the need to expand the legislated audit mandate of this Office to include the ability to perform audits of transfer payments. These expenditures comprise nearly 70% or approximately $2 billion of the Government's current expenditures.

During the past year, we conducted a review in four of the larger Departments of Government to determine the extent to which meaningful audit of these transfer payments was being carried out. This article is on page 113, and we conclude that generally a need exists for better monitoring over the ultimate management and use of a large portion of transfer payment dollars.

Although I am suggesting that there be a legislated audit mandate to permit the Office of the Auditor General to perform reviews where government grants and assistance have been provided, as is the case in five other provinces in Canada, this does not mean that our Office must perform all the audit and analytical work associated with these examinations. Reviews which would include attest, compliance and value-for-money components could be conducted by the recipients' appointed auditors, by the internal audit staff of the funding department, or by auditors engaged on a special assignment basis.

Our role would be to review these audits from two points of view. One, that they were actually being carried out in an appropriate manner;

and two, that the recommendations flowing from them were being promptly addressed by the recipient organization. The results of our review would provide an independent objective opinion to the Legislature, as part of the accountability process.

Public Accounts Committee

Prior years' commentaries on this, the fourth step in the accountability process, centered on the desirability for certain improvements in the organization and procedures used by the Public Accounts Committee to facilitate a more effective relationship with the Office of the Auditor General.

In 1987, two significant developments took place in the operation of the Public Accounts Committee. An Opposition Member served as Chairman of the Committee and, for the first time in 10 years, a substantive report on its proceedings was produced for the House of Assembly. Both of these initiatives are, in my view, indicative of the Legislature's desire to have this Committee function more effectively, and I am pleased to acknowledge them. In addition, meetings of the Committee were held at a time other than when the House was sitting, a further improvement.

Two suggestions relating to administrative matters would enhance the Committee's performance. One is a more formal enunciation of the role and responsibilities of the Committee; and the other is the use of more formal agendas supplemented by background material, in order to promote greater understanding of the issues being discussed.

Management of Government Resources

Introduction

Following a discussion of the accountability process, as presented in the preceding section of this Report, it would seem appropriate to consider how well government resources are being managed, either by the Government and its Public Service, or the recipients of grants and assistance.

I introduced in last year's Report a section entitled The Management of Government Resources, which dealt with certain Government actions directed towards better management, and several observations from two government-wide audits performed in 1986.

I acknowledged forward-thinking initiatives by Government in areas such as the budgeting process, reorganization of certain functions in departments, personnel management and training developments, improvements in computer resource management, and the release of management manuals for the departments. In my opinion, there was a need for policy statements, as well as functional guidance and support in two areas we had recently reviewed, namely, internal audit and cash management; and a more formalized monitoring or control mechanism to ensure all departments understand and are capable of implementing and adhering to policy directives.

As an introduction to the topic of resource management, I would like to return to three cogent thoughts from the Report of the Nova Scotia Royal Commission on Post-Secondary Education, commented upon in my 1985 Annual Report. The Commission stated that

> *". . . accountability is more necessary than ever in time of restricted economic growth . . . ";*
>
> *"Government and taxpayers alike, should recognize that because of this financial condition, all demands cannot be met and many existing programs will have to be reexamined and possibly restructured"; and*
>
> *"The pressures to administer and control all expenditures with the utmost regard for economy, efficiency and effectiveness have never been so critical."*

These thoughts are even more relevant today as the Government strives to reduce its deficit in the face of increasing demands from many sectors of the public.

Initiatives

In addition to the initiatives by Government mentioned in last year's Report and noted briefly above, two will be acknowledged this year.

The first is the decision by Government to embark upon a three-year program of deficit reduction, announced in the Budget Address for the 1987-88 fiscal year. It will involve priorizing of expenditure options based upon the availability of resources. This initiative should ensure more efficient use of resources, and will have to be applied both by those who receive grants and assistance from Government, and by government departments and agencies.

The second concerns the continuing efforts of the Strategic Planning Process Initiative begun in late 1986. This is now in its second phase, which will involve further study of program effectiveness and establishing program priorities for allocation of financial and staff resources. This planning process is a natural complement to the deficit reduction program, and will become an integral part of the budget process. It has resulted in a degree of analysis and consideration of Government programs previously not attempted.

Other Studies

Any discussion of accountability and resource management by a Legislative Auditor would be incomplete without reference to three recent studies by the Canadian Comprehensive Auditing Foundation. Each of these studies examines accountability in relation to government's management of taxpayer dollars.

The first of these is entitled *Canadian Hospitals — Accountability and Information For Cost-Effectiveness — An Agenda for Action.* The panel which developed this Study comprised three senior hospital administrators, two members of the medical profession, and a management consultant. Their study was released in early 1987 and has been widely-distributed in the medical and hospital communities.

Three major conclusions relevant to us in Nova Scotia are:

— hospitals and boards are being increasingly seen as responsible for not only health care, but also for value-for-money considerations in the operation of their hospitals;

— reliable, relevant information is necessary to meet these responsibilities and there is also a need for substantial improvements in the use of information for these purposes; and

— comprehensive auditing with its value-for-money considerations has a real potential to assist hospitals control costs, as a complement to the accreditation process.

The second study, entitled *Provincial Government Transfer Payments: Accountability and Audit* is currently in draft stage and should be released sometime in 1988. Although the auditing of transfer payments is within the legislative audit mandates of several provinces, this study group indicates that accountability for those who receive government grants has not received attention throughout the country commensurate with the amount of taxpayer dollars they spend. It also notes that government must balance two potentially conflicting principles: respect for local autonomy in the recipient organizations, and the responsibility to determine that the transferred funds are well-administered.

Although the diversity of recipients and the range of purposes for which transfer payments are made will preclude uniform accountability practices, better accountability arrangements must be developed which clearly establish the rights and responsibilities of both the recipient and the grantor.

The third study released in June 1987 is entitled *Effectiveness — Reporting and Auditing in the Public Sector.* The study observes that effectiveness is a complex concept not susceptible to a simple definition having universal application. But the members of the panel who prepared this study were convinced that legislatures and other governing bodies need to be served with better information about effectiveness than they are now receiving; and public sector managers are ready and willing to work within strong accountability regimes if the mechanisms used are practical and useful.

The panel proposes that management make representations on effectiveness and that auditors provide opinions about the fairness of these representations. As a preliminary basis for making management representations on effectiveness, the panel identified 12 attributes of effectiveness. In addition, they recommended an approach for reporting and auditing effectiveness information, and an agenda for action by governing bodies, management, auditors and other professional organizations.

Concluding Remarks

A higher degree of accountability for the use of government resources, and improvement in the management of these resources at all levels (whether within government departments or agencies, or by recipient organizations) are important objectives to be pursued. Our Government's initiatives on planning and deficit reduction are tangible efforts in this direction.

The recommendations of others, as precised from the three Foundation studies, indicate further directions which should be pursued. Their recommendations provide a means of achieving a greater degree of accountability for the spending and management of taxpayer dollars, wherever the ultimate spending decision or distribution is made.

Associated with this accountability is a responsibility to manage these tax dollars in a way which ensures an economical and efficient use of resources. The structures, analytical techniques, accountability relationships, and various related matters are not all in place. Many of these will require modification through time. This, however, does not justify inaction or inattention to the real challenge of improving both accountability for and management of those resources funded by taxpayer dollars.

* * * * * *

FINANCIAL TOPICS

Financial Position and Operating Results

For several years, I have commented in my Annual Reports on certain relationships and trends in the financial position and operating results of the Province. Those comments stressed the impact of continuing annual deficits and the increasing net debt of the Province.

Again this year, I will examine those relationships and trends and comment upon the deteriorating financial position of the Province. Although the operating results of the current year represent an improvement over the results of the previous year and the Government has taken initiatives which should lead to future deficit reductions, the financial position of the Province has not improved.

Net Debt

The most commonly used indicator of a province's financial position is its net debt. In the Public Accounts, the Statement of Financial Position highlights this amount, which is the excess of liabilities over realizable assets.

On March 31, 1977, the net debt of the Province was $445 million. During the period from April 1, 1986 to March 31, 1987, the net debt of the Province increased by $269 million or 8.3% to $3.5 billion. During the past decade, therefore, the net debt has increased to more than seven times its 1977 level. This increase of $3.1 billion is attributable to:

Capital expenditures	$1.7 billion
Net excess of operating expenditures over operating revenues	2.0 billion
	3.7 billion
Less: Sinking fund earnings	.6 billion
	$3.1 billion

Provisions for sinking fund installments and serial retirements of $484 million over this period are not included in the above tabulation. Of the $3.1 billion increase in the net debt over the past 10 years, 54% has been caused by operating deficits and 46% by capital expenditures.

To understand the significance of the $3.5 billion net debt of the Province, it is necessary to examine net debt on a per capita basis, as a percentage of the total personal income of the Province (before tax), and as a percentage of the gross domestic product. Exhibit I illustrates the growth of the net debt over the past ten years. The figures for net debt per capita, net debt as a percentage of total personal income (before tax), and net debt as a percentage of gross domestic product have been inserted on the graph.

Operating deficit

The second measure of financial performance is the operating deficit or surplus for the year. The Statement of Current Revenue and Expenditure in the Public Accounts shows this amount next to the caption "Excess of Current Operating Expenditure over Revenue and Recoveries". It is the excess of the total current expenditures for all government departments, plus grant and assistance programs and debt service costs, over the total operating revenues for the year. Sinking fund installments and serial retirements have been excluded from the following analysis because in government, as in business, debt repayment is not a part of profit and loss determination.

The operating deficit for the fiscal year ended March 31, 1987 was $182 million, a decrease of $70 million or 28% from the 1986 operating deficit.

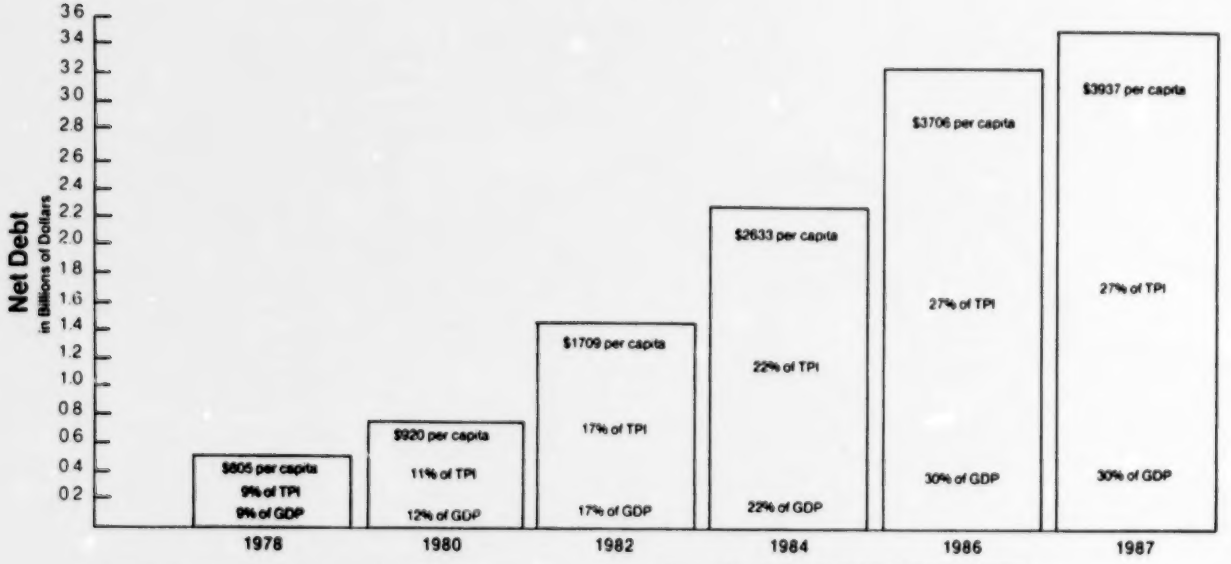
The Government of the Province has indicated a desire to reduce and ultimately eliminate the operating deficit. To achieve this goal, the Minister of Finance (in his Budget Address of April 10, 1987) announced a three-year fiscal plan for deficit reduction. By 1989-90, the Government hopes to reduce the operating deficit to $120 million.

Because on-going operating deficits are the major factor contributing to the increasing net debt of the Province, the Government's goal of reducing and ultimately eliminating the deficit through its three-year fiscal plan is commendable.

Exhibit II shows the operating deficit or surplus of the Province during selected years over the past ten years, as well as the Government's projected operating deficits for the period from 1987-88 to 1989-90.

Exhibit I

Net Debt



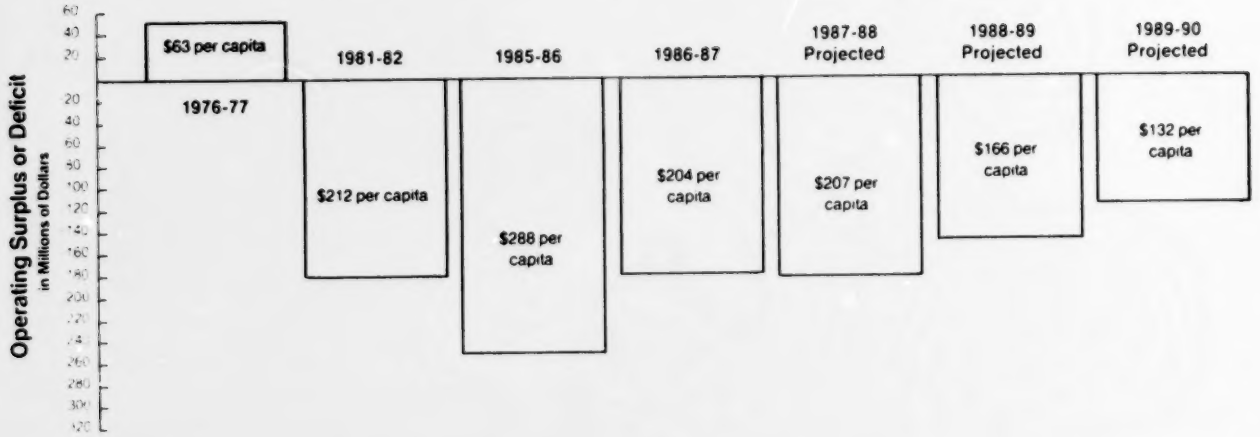
GDP = Gross Domestic Product of the Province of Nova Scotia
TPI = Total Personal Income (before tax) of the Province of Nova Scotia

Sources: *Gross Domestic Product and Total Personal Income —*
1978-1984 Statistics Canada
1986 and 1987 The Conference Board of Canada Forecasts of Key Economic Indicators
Population — Statistics Canada

Exhibit II

Operating Surplus or Deficit

(including projections for 1987-88 to 1989-90)



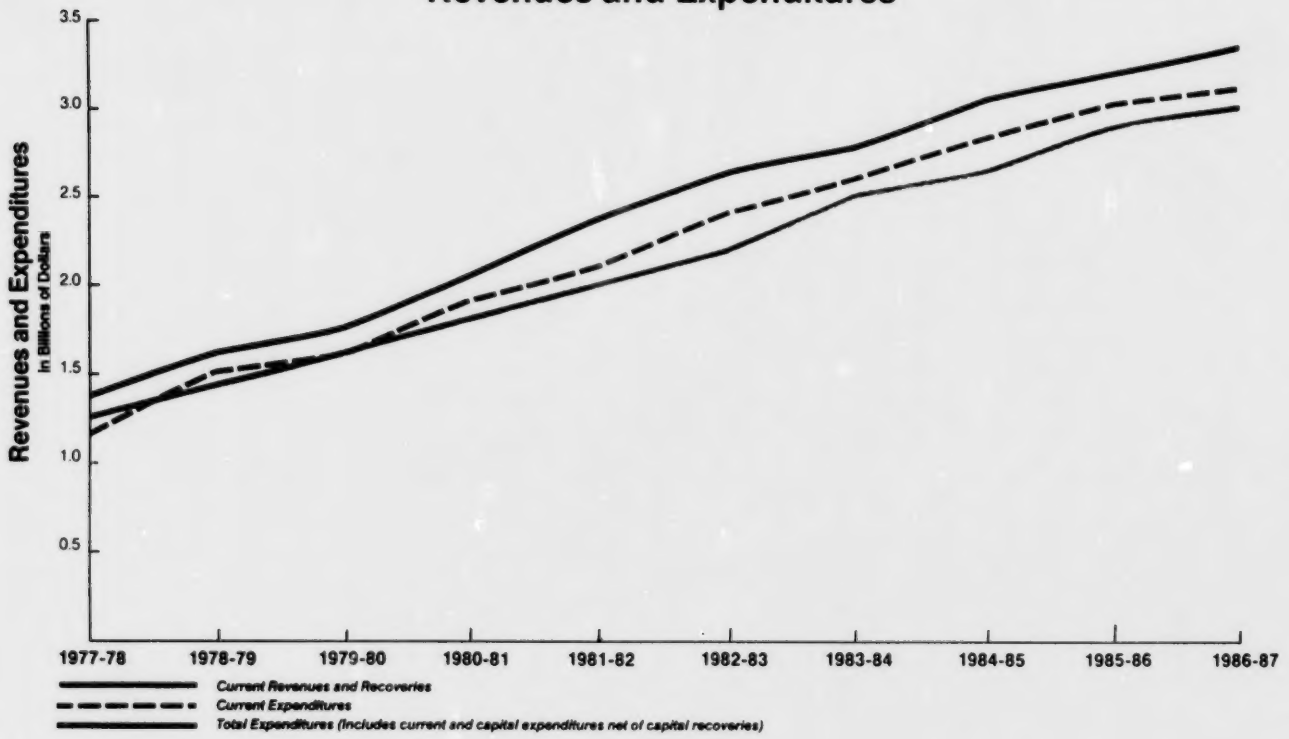
Note: Operating Surplus or Deficit excludes capital expenditures, sinking fund installments and serial retirements.

Sources: *1987-88 to 1989-90 projections — Budget Address to the Nova Scotia House of Assembly Given by the Honourable Greg Kerr, Minister of Finance on April 10, 1987.*

Population — Statistics Canada

Exhibit III

Revenues and Expenditures



The Province also incurred capital expenditures during the year. These include expenditures for highways, construction and expansion of government buildings, equipment, and grants for both buildings and equipment for hospitals and other institutions. Capital expenditures are not included in the calculation of the current year's operating deficit, but they do increase the Province's net debt. During the fiscal year ended March 31, 1987, capital expenditures of the Province were $198 million, a 3% increase over the 1986 figure.

Exhibit III shows the total current revenues and recoveries, the current expenditures, and the total expenditures of the Province over the past ten years. This graph demonstrates that both current expenditures and total expenditures have increased at a faster rate than revenues over this period. This disparity in growth rates accounts for the increasing operating deficit and the growing net debt.

The net debt of the Province will continue to rise until current revenues and recoveries exceed total expenditures. Although eliminating the operating deficit is a commendable first step towards improvement of the Province's financial position, the ultimate goal should be to reduce the net debt.

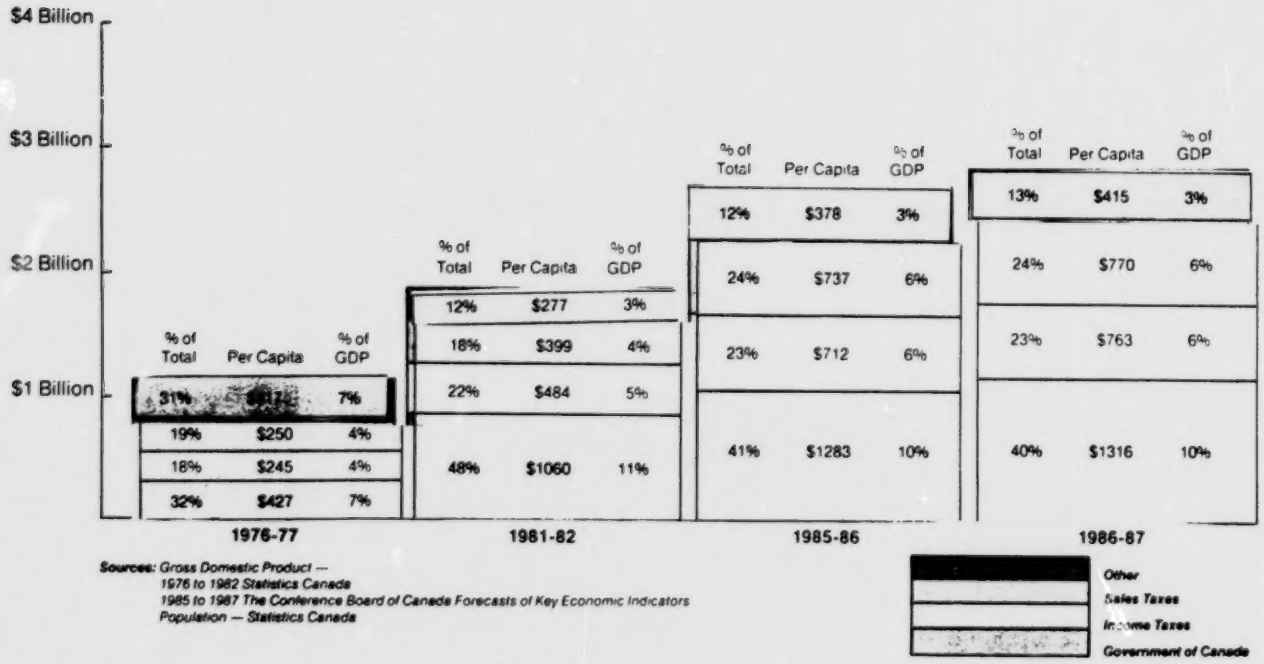
Revenues and Expenditures

In order to gain a better understanding of operating results, it is useful to examine the trend of significant revenue and expenditure amounts. Exhibit IV shows the revenues of the Province by major category for the current year, the previous year, five years ago, and ten years ago; while Exhibit V shows total expenditures (current and capital) over the same period. Both charts include per capita and percentage of gross domestic product figures.

The effect of the ever-increasing debt load of the Province on debt servicing costs and total expenditures is apparent on Exhibit V. The 1986-87 debt charges of $558 million increased by $19 million or 3.5% over 1985-86. The 1986-87 figure represents a 504% increase over the debt charges of 1976-77. As debt servicing costs become a higher percentage of total expenditures (currently 17%), the proportion of revenues available for other government services and programs obviously declines.

Exhibit IV

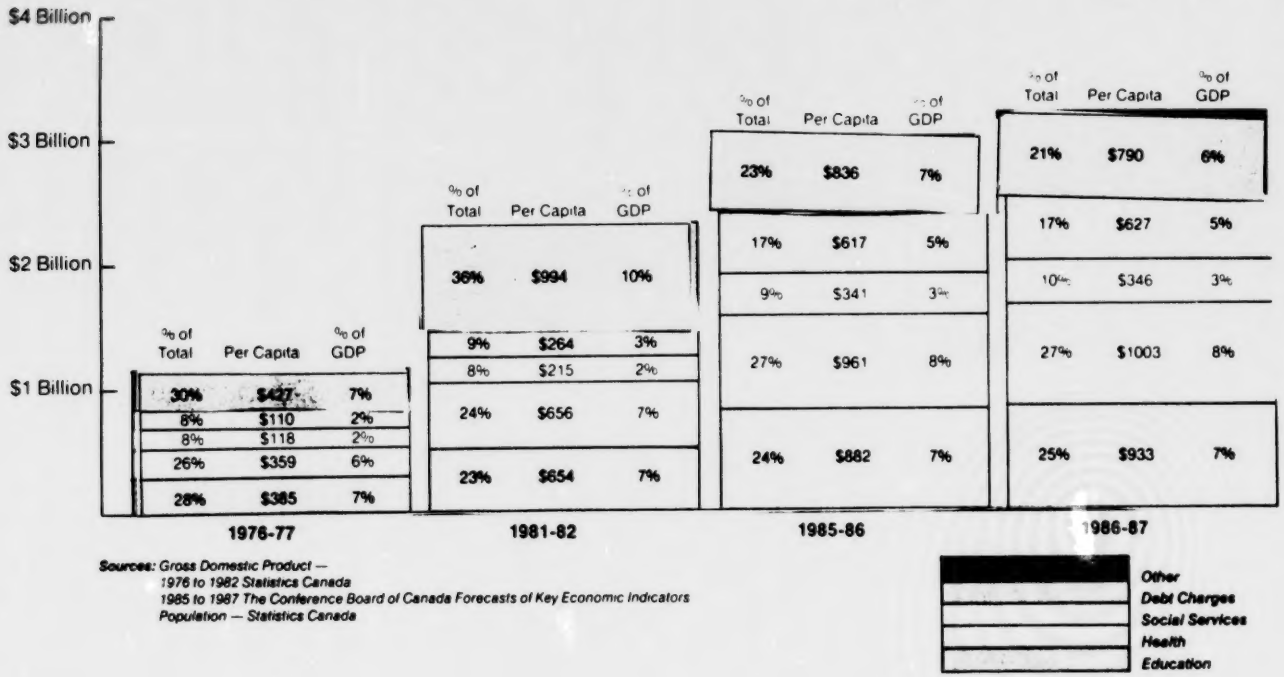
Revenues by Major Category



Sources: Gross Domestic Product —
1976 to 1982 Statistics Canada
1985 to 1987 The Conference Board of Canada Forecasts of Key Economic Indicators
Population — Statistics Canada

Exhibit V

Expenditures by Major Category



Sources: Gross Domestic Product —
1976 to 1982 Statistics Canada
1985 to 1987 The Conference Board of Canada Forecasts of Key Economic Indicators
Population — Statistics Canada

Health care expenditures of $893 million were the largest single expenditure incurred by the Province during 1986-87. They accounted for 27% of total expenditures and represented an increase over 1985-86 of $54 million or 6.4%. The 1986-87 figure represents an increase over 1976-77 of 199%.

In his Budget Address of April 10, 1987, the Minister of Finance announced the establishment of a Royal Commission to assess the costs of providing present health care services, and to make recommendations respecting measures which might be taken to achieve greater efficiency in delivery of health care services. The Government is to be commended for introducing this study.

Comparison of Actual Results to Estimates

A fourth measure of fiscal performance is the comparison of the year's actual results to the estimates for both operating revenues and expenditures. This analysis shows how well the Government has followed the fiscal plan submitted to and approved by the Legislature.

For the 1987 fiscal year, the total revenues and recoveries of $2,904 million were 1/10 of 1% ($3 million) above the estimated figure of $2,901 million. Interest revenue exceeded the estimated figure by $8 million or 12%. It was the only revenue figure which varied from the estimate by more than 3%.

Actual total expenditures for 1987 of $3,093 million were 1.3% ($41 million) less than the estimate of $3,134 million. The only area in which actual expenditures exceeded the approved estimate was Health (excess of $22 million or 3%). Three areas had actual expenditures which were less than their approved estimates by more than 3% (General Government — 5%, Resource Development — 7% and Debt Charges — 5%). This analysis shows that the Government followed the fiscal plan approved by the Legislature very closely during the year.

Concluding Remarks

The preceding discussion has focused upon the continuing operating deficits and increasing net debt of the Province. Although I have commented on these topics in previous Annual Reports and others have commented as well, I will again emphasize certain points.

The annual deficit and accumulated net debt of the Province should be reduced. As the net debt increases, debt servicing costs increase. Increased debt servicing costs reduce the portion of annual revenues available for the provision of government services. Assuming an interest rate of 10%, each $200 million increase in the net debt leads to a $20 million increase in annual debt servicing costs, which means that $20 million is unavailable for the provision of government services each year. Annual deficits are the major cause of increases in the net debt.

The net debt can only be reduced if annual deficits are eliminated. The deficit can be eliminated by increasing revenues or reducing expenditures. If an increase in the level of taxes or a drop in the level of services is unacceptable to the public and the Government, the only alternative is to increase the economy and efficiency of Government operations.

I am pleased to note that the Government has recently introduced several initiatives which will, it is hoped, increase the economy and efficiency of Government operations. These initiatives consist of:

— the three-year fiscal plan for deficit reduction;

— the completion of Phase I of the Strategic Planning Process, the most extensive self-examination ever undertaken of government's nearly 1,100 programs and services;

— the initiation of Phase II of the Strategic Planning Process from 1988 to 1991 which will involve further study of program effectiveness, establishment of program priorities for allocation of financial and staff resources, and integration of strategic planning with the budget process; and

— the establishment of the Royal Commission to assess the cost of the health delivery system.

Although they are worthwhile initiatives, the results of these processes must be vigorously pursued to ensure that the deficit is eliminated soon. There is a need for greater control over the economy and efficiency with which Government funds are spent. In the future, it will not be possible to meet all spending demands. Requests will have to be priorized and low priorities generally denied.

Government and taxpayers alike must recognize that the Province's financial position is a critical one. The ultimate goal must be to have revenues exceed total expenditures (both current and capital) so that the net debt can be decreased. Reduction of the operating deficit is a commendable first step, but it will only result in a slower rate of growth of the Province's net debt, not a decrease. Deficit reduction is not an easy task, but Government and taxpayers must be prepared to make the difficult decisions necessary to achieve this objective.

Additional Appropriations

Each year the Appropriations Act authorizes spending amounts for the programs of Government. The amounts are tabled in the Legislature in the form of the Estimates and represent the Government's spending plans for the coming year. The Provincial Finance Act authorizes adjustments to these spending plans through additional appropriations which are approved by Order in Council. These additional appropriations are not subject to the scrutiny or approval of the Legislature. Because these additional appropriations are not subject to House approval, the Government has the responsibility to ensure that the original spending plans are as realistic as possible.

The Estimates for 1986-87 contained 107 resolutions submitted to the Legislature for current expenditures totalling $3,133 million. Thirty-four of these required additional appropriations amounting to $38.2 million. These additional appropriations were from 9 of the 21 government departments. Additional appropriations totalling $4.9 million were approved for two capital expenditure votes, but only $523,400 of this amount was required. A summary of additional appropriations for the past six years is shown below.

Additional Appropriations ($ million)

Year	Current	Capital	Total
1986-87	38.2	4.9	43.1
1985-86	113.6	2.2	115.8
1984-85	70.6	.2	70.8
1983-84	35.1	27.7	62.8
1982-83	84.2	5.9	90.1
1981-82	166.2	24.8	191.0

Total additional appropriations in the 1986-87 fiscal year are the lowest since 1977-78, while for current expenditures during the same period only 1983-84 was lower. The additional appropriations of $38.2 million cannot be considered unreasonable in relation to a total current expenditure estimate of $3.1 billion. This improvement reflects Management Board's policy to require departments to operate within their original estimates.

Moreover, the 1986-87 Estimates included a separate vote for Public Service of $24.0 million for salary, fee and benefit increases. This vote was suspended by Order in Council in March 1987, and these costs had to be absorbed by the departments of Government, even though their original estimates did not include an allowance for them.

Overexpenditures in the Departments of Health and Education, totalling $31.2 million, accounted for 82% (35% in 1985-86) of the additional appropriations for current expenditures.

Of the 34 votes requiring additional appropriations, it is my opinion that the overexpenditures for Grants to School Boards, and a portion of Health Programs' costs could have been anticipated.

Expenditures for Health Programs exceeded the Estimates by $17.4 million. The original budget did not provide for increases in salary and benefit costs resulting in an additional requirement of $8.9 million, and medical fees of $1.5 million. Actual costs of the Victoria General Hospital exceeded budget by $3.3 million, and additional costs for services in other hospitals amounted to $3.2 million.

In our Annual Reports for 1982, 1983, 1984 and 1986, we noted that the Estimates for Grants to School Boards were unrealistic. Again in 1986-87, the Estimates did not make adequate allowance for increases in rates used in calculating school grants for the period January 1 to March 31, 1987, resulting in actual expenditures which were $7.5 million larger than the Estimates.

In my 1986 Annual Report, I detailed budgeted and actual expenditures for Snow Removal and Ice Control for the three prior years. For the fiscal year ended March 31, 1987, an additional appropriation was not required for the vote under which Snow Removal and Ice Control is recorded, because of underexpenditures in other areas of the Department of Transportation. Nevertheless, Snow Removal and Ice Control costs exceeded the estimate this year by $3,074,928, despite an increase in the budget allocation.

Snow Removal and Ice Control

Year	Estimate	Actual
1986-87	$ 34,200,000	$ 37,274,928
1985-86	30,000,000	38,543,199
1984-85	30,000,000	35,475,579
1983-84	30,803,000	30,710,000

The additional appropriations for capital expenditures were from the Departments of Education and Transportation. The Department of Transportation's request of $4.4 million was based on forecast expenditures which did not occur; as a result, the Department did not require the additional spending authority. The Department of Education required an additional $523,000 for increases in formula rates for capital repairs and renovations that were not provided for in the Estimates.

Again this year I am concerned about the delay in approving additional appropriations. For 31 of the total of 41 additional appropriations, the Orders in Council approving the additional appropriations were dated after the overexpenditure had occurred. Furthermore, 30 of these were not requested until after year-end.

The following is a list of the additional appropriations approved after the end of the 1986-87 fiscal year. These amounted to $25.8 million or 60% of the total additional appropriations for the year.

Appropriations Approved after March 31, 1987

Department	Approval Date	Amount
Attorney General		
Registry of Joint Stock Companies	July 14/87	$18,200
General Administration	July 14/87	67,611
Education		
Assistance to Universities	Aug.5/87	317,400
Capital Grants (Capital)	Aug.5/87	523,400
Education Resource Services	Aug.5/87	479,100
Teachers' Pensions	Aug.5/87	483,000
Grants and Assistance	Aug.5/87	7,045,000

Health		
Health Services and Insurance	July 14/87	5,797,000
Health Programs	Aug. 18/87	2,212,300
Lands and Forests		
Operations	Apr. 7/87	57,100
Public Service		
Public Archives of Nova Scotia	Apr. 7/87	39,000
Office of the Auditor General	Apr. 7/87	15,500
Gasoline and Fuel Oil Licensing Act, Administration	July 14/87	65,400
Nova Scotia Research Foundation	July 28/87	86,000
Protocol Office	Sept. 9/87	88,969
Legislative Expenses	Sept. 9/87	38,849
Public Archives of Nova Scotia	Sept. 9/87	19,000
Workers' Compensation Board	Sept. 9/87	114,820
Election Expenses	Sept. 9/87	4,249
Art Gallery of Nova Scotia	Sept. 9/87	6,783
Policy Board	Sept. 9/87	149,247
Legislative Counsel	Sept. 9/87	693
Emergency Measures Organization	Sept. 9/87	4,617
Government House	Sept. 9/87	56,467
Social Services		
Public Assistance	Aug. 25/87	1,531,847
Administration	Aug. 25/87	402,520
Family and Children's Services	Aug. 25/87	710,946
Tourism		
Hotel Operations	Sept. 9/87	266,200
Transportation		
Transportation (Capital)	Apr. 7/87	4,395,523
Registry of Motor Vehicles	June 9/87	828,800
		$25,825,541

* * * * * *

I am required under Section 8(1)(f) of the Auditor General Act to call attention in my Annual Report to every case in which "*a special warrant made pursuant to the provisions of the Provincial Finance Act, authorized a payment of money*". The Provincial Finance Act allows the Governor in Council to approve a Special Warrant, when the Legislature is not in session, which authorizes "*an expenditure which was not provided for by the Legislature*" and "*is urgently and immediately required for the public good.*"

On February 24, 1987, a Special Warrant was approved authorizing administrative and other costs, up to $300,000, for the Royal Commission on the Donald Marshall Jr. Prosecution. Actual expenditures to March 31, 1987 amounted to $268,784.

* * * * * *

CROWN AGENCIES AND CORPORATIONS

Introduction

There are 17 crown agencies and corporations, excluding hospitals, whose annual audits are performed by chartered accountants other than the Auditor General. A schedule of these is included in Appendix IV.

Under Section 16 of the Auditor General Act, I am furnished annually with the audited financial statements and all audit reports prepared by the auditors of these agencies and corporations. The Auditor General may conduct any such additional examination or investigation of the records and operations of the agencies as he deems necessary.

Examinations or investigations which my Office performs under Section 16 have different objectives and hence a different scope of review than that undertaken by the private sector auditors. I do not attempt to duplicate their work regarding an audit opinion on the entity's annual financial statements. The focus of our reviews is on broader issues such as the management and organization of the enterprise, and the manner in which it is meeting its legislated or otherwise determined objectives. The results of these reviews are reported to the management and Boards of the corporations and agencies, and a more abbreviated report is included each year in my Annual Report.

During 1987, my staff conducted reviews at the Nova Scotia Municipal Finance Corporation, Sherbrooke Restoration Commission and Waterfront Development Corporation. We also performed a follow-up review of a prior year's examination at the Nova Scotia Liquor Commission. Articles on each of these are included in this section.

Review of Auditors' Reports

Section 16 of the Auditor General Act requires auditors of all crown agencies to provide us annually with copies of the audited financial statements and all reports prepared pertaining to these audits. We reviewed all financial statements and reports received. We were principally interested in whether:

— there was any indication of inadequate financial controls and records as mentioned in letters to management or indicated by reservations of audit opinion on the financial statements;

— preparation of annual financial statements, and the audits of them, were performed on a timely basis;

— notes to the financial statements outlined the legislative mandate of the entity; and

— there was disclosure of the entity's audited financial statements, preferably in the Public Accounts.

The following observations result from our examination of the financial statements and auditors' reports.

Financial controls and records — Letters to management from their auditors indicated some weaknesses but, except in the case of the Workers' Compensation Board, they were not serious enough to elaborate on in this Report.

The Auditor's Report on the financial statements of December 31, 1986 for the Workers' Compensation Board contains a qualification of opinion, as follows:

"Included in liabilities and reserves on the balance sheet is an amount of $46,500,929, representing the estimated liability for outstanding claims. This liability has not been audited in years prior to December 31, 1986 and an actuarial review of the liability has not been performed since 1981. We were not able to satisfy ourselves concerning the accuracy of these accounts by alternative means. Accordingly, we were not able to determine whether any adjustments might be necessary to liabilities, expenses, unappropriated surplus, reserve funds, and working capital."

We consider this a significant matter, and we were informed that the Board was having an actuarial review performed at the time of the writing of this Report.

Timeliness of statement preparation — The preparation of financial statements, and the audits of them, were conducted on a timely basis with all completed within six months of year-end, except Workers' Compensation Board which took nearly a year.

There were two cases — Schooner Bluenose Foundation and Sherbrooke Restoration Commission — where no financial statement audits were conducted. Unaudited financial statements were prepared in the case of Sherbrooke Restoration Commission. The Commission was the subject of a separate review this year; refer to page 73.

The Schooner Bluenose Foundation Act came into force on May 1, 1984 with provisions calling for audited financial statements to be included in an annual report to the Minister, and such report to be tabled before the Legislature. This has never been done. The transactions of the Foundation are recorded by the Department of Finance, and the net result of the transactions included among the group of Miscellaneous Trusts in Statement 25 of the Public Accounts. It is my understanding that steps are being taken to meet, in future, the audit and reporting provisions of this Act.

Legislative Mandate — It is important, particularly in the case of crown corporations and agencies, for the reader of financial statements to have some awareness of the legislative mandate under which the entity operates. This is most conveniently displayed as a note to the financial statements.

I have observed a distinct improvement in this regard over the past two years, with more than half of the financial statements now including an explanatory note on legislative mandate. I recommend this for all crown corporations and agencies.

Reporting — I contend that the Public Accounts of Nova Scotia should come as close as possible to presenting full disclosure of the financial position and operating results of all entities which are Government controlled. The March 31, 1987 Public Accounts will contain the annual financial statements of five entities previously not included.

There are three other entities, one a joint operation with the other Maritime Provinces, which, although not in the Public Accounts, are tabled in the Legislature and available to the public. These are the Council of Maritime Premiers, the Halifax-Dartmouth Bridge Commission, and the Workers' Compensation Board. The Atlantic Provinces Special Education Authority is jointly funded by four Atlantic Provinces. The financial statements are neither included in the Public Accounts nor tabled in the Legislature.

Concluding Remarks

Improvements have been noted in the accounting and reporting of crown corporations and agencies over recent years. In order to maintain this trend, I reiterate my suggestion of prior years for legislation that would provide for accountability of crown corporations to the Legislative Assembly.

This legislation would help to achieve uniformity in disclosure and improve the understanding of authority and responsibility allocated to Board members of these corporations. It should also include a definition of what constitutes an agency or corporation of the crown. At present there are several definitions for crown agencies and corporations. For example, the Provincial Finance Act and Auditor General Act contain somewhat different definitions. This situation has created some problems in determining the status of certain entities. The definition in all legislation should be consistent.

Nova Scotia Liquor Commission

Introduction

In 1984, under the provisions of Section 16 (2) of the Auditor General Act, my Office conducted a special examination of certain aspects of the operation of the Nova Scotia Liquor Commission. Six functional areas were reviewed — Advisory Services, Finance, Internal Audit, Property and Development, Stock Administration, and Store Administration. The objectives were to assess each of these areas from a managerial standpoint, and to determine both the appropriateness of the responsibilities assigned to the function, and how well, in our view, these were being performed.

We issued a report on this assignment which included our observations and conclusions, along with over 40 recommendations and suggestions for consideration by management of the Commission. Our overall conclusion was that the functional areas examined were well-managed, and that we were impressed with the calibre of those in charge of these functions, and the manner in which their responsibilities were fulfilled.

A short article describing the results of this audit was included in my 1984 Annual Report. There were two significant areas which we considered warranted the special attention of management — inventory management and use of space. The other recommendations and suggestions detailed in our Report concerned such matters as accounting and control systems, managerial information and reports, and possible modifications to certain functional management responsibilities. These were well-received by Commission management, and many were acted upon prior to the conclusion of our audit.

A brief review took place in late 1985 to assess progress in implementing suggestions in our 1984 audit report. A more recent review was undertaken in late 1987. The results of this follow-up are described below.

Results of Review

Four major developments have taken place since our audit which warrant description.

- The Commission has introduced a more comprehensive and responsibility-based system of budgeting. This system budgets expense accounts by store, as well as by division and features an "exception highlighting system" for the analysis of significant variances. The system is based upon computerized data, and a budget officer has been engaged with responsibilities to monitor revenue and expenditure accounts.

- The Commission engaged a firm of management consultants to study their product pricing policy, and recommend improvements. On the basis of this study, a more flexible and contemporary pricing policy is being considered. This policy would be based upon standard costs, and use both fixed and variable mark-up pricing procedures. It should result in market related pricing for the products of the Commission.

- A computerized inventory monitoring control system has been introduced, which provides the Commission with current information on all stock in the main warehouse. The long run benefits from this system should facilitate reducing the overall level of inventory throughout the Commission's operations. Inventories have been consolidated at the Commission's new premises at Bayers Lake.

- A Consumer Relations Division, to improve the merchandising of products and to provide a higher level of customer service, has been established. Responsibilities include sales and special promotions, in-store merchandising, liaison with licensees, staff training, and other related matters.

A number of other improvements in various administrative areas include the following:

— the development of a revised set of security standards for retail and warehouse facilities;

— further computerization of ordering, accounting, and data accumulation functions;

— the assumption of enhanced auditing responsibilities by the internal audit group, into areas more directly related to the actual management of retail operations;

— the imminent introduction of new cash registers in selected stores, which will reduce manual effort at the retail store level and accelerate the flow of accounting information to head office; and

— greater use of retail square footage analysis of costs, revenues and profits.

There are two areas where management plans additional improvements in their management information systems. One involves further computerization of data accumulation and analysis in several key areas. The other is the development of formulas or standards to assist in the ordering of stock at the warehouse level.

To maximize the use of capacity at the retail store level, we offered suggestions concerning sales and profit analysis, and the possibility of more flexible store sizes. The Commission has introduced merchandising practices which make greater use of both square and cubic footage in their stores. A general down-sizing of store size has been introduced in many areas, including the introduction of small liquor mart stores.

Conclusion

The purpose of our 1987 review was to obtain an overall understanding of how extensively the recommendations from the 1984 report had been acted upon. The results of this follow-up were quite encouraging; we saw strong evidence of a concerted management effort to improve the effectiveness of their management of this operation.

As in 1984, we can express the opinion based upon our brief review, that the Nova Scotia Liquor Commission appears to be well-managed, and that the senior management, with whom we met, are well aware of their managerial responsibilities and are attempting to meet them in an appropriate manner.

Nova Scotia Municipal Finance Corporation

Introduction

During the past year, this Office completed a review of the operations of the Nova Scotia Municipal Finance Corporation under Section 16(2) of the Auditor General Act. This was our first review of the operations since it was established in 1979.

The objectives of the assignment were to obtain current information regarding the organization, its operating policies and practices, and financial results of its operations; and to review its operations from a managerial perspective to assess how well assigned responsibilities were being performed.

The Corporation provides financing through a central borrowing authority for the capital requirements of municipalities, municipal enterprises including school boards, and hospitals within the Province. It issues securities to raise funds and then lends these funds to municipal units, school boards and hospitals. All municipalities and school boards in the Province must finance their capital requirements through the Corporation. Hospitals have the option to borrow from the Corporation according to recent amendments to the Municipal Finance Act.

Results of Audit

We obtained a reasonable understanding regarding the organization, its operating policies and practices, and results of financial operations of the Corporation. We felt that its policies and practices could be improved in several areas. Our audit observations are summarized in the following paragraphs.

The Corporation has a Reserve Fund of $2.6 million. This Fund was accumulated from interest earned on a $1.2 million loan from the Province (repaid during 1985), and a discount of 1/4% on the face value of all funds borrowed by municipalities, school boards and hospitals. The Reserve Fund is growing by approximately $300,000 per year. The Fund, in our opinion, seems unnecessary, and should be reduced.

Accordingly, we have recommended to management that they reassess the need for this Reserve Fund and, if it is unnecessary, that action be taken to reduce it to a reasonable amount and set an upper limit on its future growth.

Section 18(2) of the Municipal Finance Corporation Act requires that approved administrative expenses not paid by the Province be charged to the municipalities based upon each municipality's pro rata share of the total taxable assessment of the municipalities in the Province. To date, because all administrative costs have been paid by the Province, the municipalities have not been charged.

The Municipal Finance Corporation Act should be revised to permit charging of administrative costs not paid by the Province to the Reserve Fund and/or the municipalities, hospitals and school boards which use the Corporation's services. We were informed that such an amendment is to be proposed to the Legislature in 1988.

Currently, all of the debenture and loan procedures of the Corporation are performed manually. Because of the high volume of repetitive transactions, the debenture and loan functions should, in our view, be computerized.

Our review of the cash management practices indicated that the balance in one of the bank accounts maintained by the Corporation has been unnecessarily high (an average of $485,000 in the four-month

period we surveyed). This balance did not bear interest. The arrangements with the bank are being modified to incorporate the payment of interest.

Section 4 of the Municipal Finance Corporation Act provides that:

"(1) The Board of Directors shall be comprised of such members, not less than five, as may from time to time be appointed by the Governor in Council.

(2) A number of the members of the Board shall be appointed upon the recommendation of the Union of Nova Scotia Municipalities and the number so appointed shall be that number that is nearest to being forty percent [per cent] of the total number of the members on the Board."

Currently, in addition to members recommended by the Union of Nova Scotia Municipalities and corporate and outside representation, only one department of government has membership on the Board. This is the Department of Municipal Affairs. We recommend that other significant users of the Corporation's services, namely the Departments of Education and Health, should also be represented on the Board.

To date the financial statements of the Corporation have not been published in the Public Accounts of the Province of Nova Scotia. However, their audited financial statements are to be included in the March 31, 1987 Public Accounts.

Conclusion

We obtained a reasonable understanding of the management and operations of the Nova Scotia Municipal Finance Corporation.

In response to our recommendations, corrective action has begun in the areas of cash management, computerization and proposed revisions to the Act regarding charges for administrative costs. We hope that further consideration will be given to our recommendations concerning the Reserve Fund and composition of the Board of Directors.

Sherbrooke Restoration Commission

Introduction

During the past year this Office, under authority of Section 16(2) of the Auditor General Act, completed a review of the operations of the Sherbrooke Restoration Commission. This was our first review of the operations since its establishment in 1969.

The objectives of the assignment were to obtain a full understanding of the organization and scope of the Commission's operation; and to review its overall management including the accounting function, controls over historic objects, and its program evaluation practices.

Established by the Sherbrooke Restoration Commission Act in 1969, the Commission is accountable to the Legislature through the Board of Governors of the Nova Scotia Museum and the Minister of Education. The intent of the legislation is to conserve a part of the Village of Sherbrooke as it was during the last half of the 19th Century and, in doing so, to employ the resources and people of the Village of Sherbrooke and the surrounding district. The Commission oversees approximately 30 programs or places of interest for tourist visits, and operates for approximately 6 months each year.

Results of Audit

The Commission consists of members mainly from the Sherbrooke area. On the basis of our examination, we were able to conclude that it is an effective body, one which meaningfully considers matters relating to finance, human resource management, evaluation of programs, and administration of the operation.

There are two areas where, in our view, the Commission's policies and practices should be re-examined and possibly improved.

- The financial statements are audited only every three years, the last audit being conducted in 1985. The auditor's opinion was qualified because of a lack of continuity of audit review, and deficiencies in internal control relating to miscellaneous cash receipts.

We suggest that for proper accountability, and to aid in overcoming cash receipt control deficiencies, an audit should be conducted each year. The financial statements will be included, for the first time, in the March 31, 1987 Public Accounts.

- The Commission has not been registering all of its historic and scientific objects in the Accession records of the Nova Scotia Museum, as required by Section 8 of the Sherbrooke Restoration Commission Act. The risk of non-compliance in this area is that valuable and historic objects may be unknowingly lost or destroyed.

Conclusion

We were pleased with the results of our examination. We were able to obtain an understanding of the Sherbrooke Restoration Commission's responsibilities, and on the basis of our review were able to conclude that the operation is well-managed.

Waterfront Development Corporation

Introduction

During the past year, under Section 16(2) of the Auditor General Act, we completed a review of the operations of the Waterfront Development Corporation Limited. This was our first review since it was established in 1976 as part of a Subsidiary Agreement between the Government of Canada and the Province of Nova Scotia under the General Development Agreement.

The objectives of the assignment were to obtain current information regarding the organization, its operating policies and practices, and financial results of its operations and to review its operations from a managerial perspective to assess how well assigned responsibilities were being performed.

The purpose of the Waterfront Development Corporation is to revitalize the central areas of the waterfronts of Halifax and Dartmouth

in order to rejuvenate the downtown core of both cities. The Corporation's strategy has been to provide infrastructure so that development can take place in the private sector. Over the past 11 years, approximately $45 million has been invested in land acquisition, infrastructure and the provision of public amenities.

Since the Subsidiary Agreement expired in 1982, the level of development activity has declined significantly because funding has not been available. Currently, the major activities of the Corporation consist of maintaining and leasing several properties and berths for ships, operating five parking lots, and encouraging private sector development of the undeveloped property which it owns in Halifax and Dartmouth.

Results of Audit

General Observations — Our review resulted in the following specific observations.

- No instances were noted where the relevant legislation was not complied with.
- The organizational structure and policies appear to be appropriate for the Corporation.
- The procedures used by the Corporation to set lease terms are reasonable.
- The monthly financial reports are both timely and appropriate for effective management of the Corporation.
- The Corporation's cash management practices are satisfactory.

Sales of land — The Corporation had made only two major land sales during its history. In both cases, the price received was compared by our Office to appraisals of market value performed by qualified real estate appraisers hired by the Corporation. The prices received were approximately the same as the market value appraisals.

We reviewed the documentation of the 1986 sale of a portion of Block "M" (waterfront property in Halifax at the foot of Sackville Street) because it was the largest land sale made by the Corporation and the most recent one.

In summary, we determined that there had been a proper public proposal call for the entire block. The proposal call document indicated that proposals would be accepted from proponents who wished to develop only a portion of the Block "M" site. However, a design concept for the entire site was required as part of the submission, to faciliate future developments on the block. Of eight responses to the initial stage of the proposal call, three of the respondents were invited to submit proposals for the second stage of the selection process. All three respondents submitted proposals which included design concepts for the entire site.

The Corporation hired a firm of consultants to evaluate the three submissions. Both the consultants and the Corporation deemed that none of the proposals were acceptable in their entirety. The Corporation then decided to accept the first phase of one of the proposals.

As a result of our review of the Block "M" proposal and the resulting decision, we understand the circumstances leading to the decision to award a portion of the block for the development of an office building. This decision process appears to be in accordance with the terms of the original proposal call. The selling price received for the section of the block compared favorably to the market value appraisal performed by a qualified real estate appraiser hired by the Corporation.

Conclusion

We were able to obtain a reasonable understanding of the organization and operation of the Waterfront Development Corporation, and on the basis of our review concluded that it is well-managed.

Our examination of the documentation concerning the land sales indicated that the tendering and awarding process employed was not inappropriate, and that sales prices reflected current market values.

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SPECIAL DEPARTMENTAL REVIEWS

Introduction

Each year, my Office performs extended (or what is often termed broader scope) reviews in certain areas of selected departments of Government. These reviews may cover selected activities of a department, or the review of a given activity or function on a multi-department or government-wide basis. Certain of these areas or functions which are subject to a special audit review by our Office are ones which we schedule for audit on a cyclical basis of once every three to five years. Others are subject to review less frequently.

During the past year, three different types of special audit reviews were conducted. There were four in-depth assignments performed in agencies and departments, which were:

Department of Consumer Affairs — Debtor Assistance and Amusements Regulation
Department of Finance — Provincial Tax Commission
Department of Labour — Fire Marshal
Department of Health — Medical Services Insurance

We began three other broad scope assignments by completing the first phase of these audits. Two of these are government-wide function reviews. The three are:

Department of Health — Hospitals
Result Indicators
Review of Recipients' Management of Grants and Assistance

In addition, we performed brief follow-up reviews to three previously performed special audits:

Cash Management
Internal Audit
Department of Tourism — Resort Hotels

These audits reflect a distinct shift in approach in certain of our assignments, from financial statement and compliance matters, to an evaluation of issues pertaining to the administration and management of the function.

I will reiterate a comment from my last year's Report regarding what I perceive to be the tangible benefits derived from these audits. In all cases, we were able to provide the departments or agencies concerned with what I consider to be worthwhile observations and recommendations for improvements. Not only were these observations and recommendations well received in most cases, but many were acted upon before the audits were actually completed. To have our Office in a position not only to evaluate performance, but to provide useful suggestions for improvement, is a positive dimension of our work.

Finally, many of these audits encompass activities or functions that are government-wide. Although there are specific issues concerning individual departments, there are generally observations and recommendations which are more widely encompassing. Accordingly, there is a responsibility upon Government to ensure that appropriate action is taken on those matters which we have identified , and in their judgment should be addressed. This action will take many forms such as the development and promulgation of government-wide operating policies and procedures, the provision of functional advice and support to the departments, and finally, a degree of continuing monitoring on their part to ensure that there has been compliance with the policies and directives of central agencies of government.

Cash Management

Introduction

During 1986, this Office completed and reported upon a review of selected areas in the cash management function within certain departments. The assignment was our initial effort at reviewing this subject government-wide. My March 31, 1986 Report included an article summarizing the more significant findings and conclusions.

Our Office recently undertook an update review to determine the extent of the action taken to address the recommendations from that assignment. Because it had been less than a year since the release of our report and the Annual Report article, the scope of the update review was limited. The Department of Finance provided us with a summary of action taken or planned by them, as well as additional comments relating to their cash management practices.

Based on the information provided, action has been taken or is planned to address many of our more significant findings and recommendations. In our view, if effectively implemented and managed, this action will improve the overall cash management function within Finance and provincial operations generally. Once the planned changes are in place, ongoing efforts will have to be made to identify and address other possible cash management initiatives within Finance as well as government-wide.

The following summarizes the significant action taken or planned for the cash management function.

Management and Forecasting of Cash Flow

- A new full-time Cash Management Officer position will provide the necessary resources for formalizing the cash forecasting procedures, including the appropriate exchange of information between departments and Finance. Job descriptions for this and other positions have been submitted to Management Board for review and rating.

- Cash management policies and guidelines are to be formally documented as additional staff resources become available.

- The Province has implemented a three-year fiscal plan for deficit reduction, which includes reducing borrowing requirements. An integral part of this fiscal plan is a long-term cash forecasting process, which is now formalized in the budget process, commencing with the 1987-88 Estimates.

- Continuing efforts are being made to minimize excess cash balances.

- Efforts will be made to reduce the delays in filing federal cost-sharing claims.

- Steps have been or will be implemented to facilitate, as much as is practical, the same day deposit of cash receipts at the Provincial Tax Commission and the Registry of Motor Vehicles.

- The Provincial Tax Commission began charging interest on overdue health services tax receivables April 1, 1987.

Banking Arrangements

- The annual review of banking arrangements will be formalized and documented.

- A summary of the terms and conditions for the banking arrangements has been prepared and will be kept up to date.

Payment of Accounts

- Additional procedures will be implemented to minimize payment of invoices prior to due dates.

- The payment of account function at the Department of Transportation and Communications is to be transferred to Finance.

Concluding Remarks

In our view, the cash management function, within Finance and on a government-wide basis, is important and significant. We are pleased to note that action has been taken and further action is planned to address many of the findings and recommendations included in our 1986 report.

In order to achieve and maintain effective cash management, it will be necessary to monitor the cash management function on a government-wide basis. This monitoring should identify additional opportunities for improvements and savings. Because cash management is significant, both from a financial and a management perspective, this Office will review the area in detail again at an appropriate future date.

Department of Consumer Affairs

During the year, we completed a review of selected areas within the Debtor Assistance Section and the Amusements Regulation Division of the Department of Consumer Affairs.

The objectives of the assignment were to obtain current information on the organization, policies and practices of these divisions, and to review these from a managerial standpoint to evaluate the appropriateness and adequacy of their management practices.

Debtor Assistance

Based on a review of the section's mandate and objectives, its key success factors, and the resources and environmental factors affecting it, we selected the following areas for further examination.

Result Indicators
Consumer Education
Administration of Trust Fund

Result Indicators — Effectiveness measurement is of prime concern because there are relatively few resources employed and program delivery is a key factor. We, therefore, reviewed the result indicators to see if procedures were in place to measure effectiveness, whether the data reported related to objectives for the program, and whether reports were timely and useful.

The Department has implemented a result indicators system which provides useful information to plan and control operations. Indicators have been developed which measure efficiency, quality of service, level of service and effectiveness. Both the results information and the standards against which performance are measured are reviewed annually by the Department.

There appears to be a satisfactory use of the result indicators system to provide essential information for planning and controlling the operation. However, we provided some recommendations for improvements in the system, which the Department has adopted.

Consumer Education — The debtor education program is a key component of the Debtor Assistance Section because one of its objectives is to educate consumers in how to avoid financial difficulties. We reviewed the material used in training programs and the literature provided to consumers. We interviewed staff on the methodology for individual counselling, and we attended a seminar on Consumerism. All of this was done to determine whether delivery of the information permitted easy learning and understanding.

Comprehensive training programs for consumers in financial difficulty are in place to educate them in managing money, credit and budgeting. These programs are delivered by individual counselling, group lectures and through radio programs.

It is our opinion that the contents and method of delivery of these consumer education programs are satisfactory. Individual counselling directs a person to the appropriate course of action for their circumstances. Lectures and radio programs increase public awareness of things to watch for in the marketplace, as well as informing consumers of the services offered through the Orderly Payment of Debts program.

Administration of Trust Fund — Consumers who are unable to meet their financial obligations can arrange with the Orderly Payment of Debts Division for assistance in handling their affairs. The consumer will remit an agreed-upon amount from each pay cheque to the Department, which in turn pays the consumer's creditors on a pro rata basis. A trust account is maintained by the Department of Finance for the funds involved.

We reviewed the terms of the trust account and determined that they appeared to be appropriate. Although interest is not material because payments are made to creditors on a quarterly basis, an acceptable rate of interest is being earned on the trust funds.

Amusements Regulation Division

The purpose of the Division, as stated in the Theatres and Amusements Act, is to license and regulate public amusement by:

- classifying, permitting or prohibiting any film, including videofilm, to be presented in the Province;
- examining and licensing projectionists;
- licensing, regulating, inspecting, taxing and supervising theatres and places of amusement; and
- licensing and regulating film exchanges.

We selected the licensing and inspection areas for examination, to encompass an assessment of the verification process for licensee submissions, and the inspection process for compliance with the Act and Regulations.

Licensing Process — We reviewed the legislation and regulations pertaining to licensing, and the procedures in place to ensure that applicants comply with them.

The Board is responsible for issuing licenses for theatres, places of amusement and video outlets. They assess licensee submissions to determine whether licensees meet all local bylaws. The Board requests a letter of consent from the municipality involved, and receives inspection approval reports from the Fire Marshal for theatres and places of amusement. They may also require letters of approval from the Department of Health for health matters, Lands and Forests for open fires, Tourism for camping, and from the local RCMP Detachment concerning security matters.

Based upon the results of our audit tests, it is our opinion that the Amusements Regulation Division has a satisfactory system in place to verify licensee submissions.

Inspection Process — Inspectors were identified as a key component of the Board, since they conduct periodic inspections of all regulated locations. In addition, they follow up on delinquent accounts and identify entities which have started up business without going through the proper channels.

To determine how well this function was being performed, we reviewed the manner in which inspections are planned, the procedures followed in the process, the method of reporting results, and the procedures used to measure inspector performance.

We found that the prescribed standards for the number of inspections per location, for inspection procedures, and for reporting provide satisfactory guidelines to ensure consistent and comprehensive inspection coverage. We recommended some enhancement to the result indicators system concerning the reporting of the number and type of inspections carried out.

The Board is satisfactorily measuring the performance of its inspection process, and the result indicators in use appear to meet the needs of the Department.

Overall Conclusion

On the basis of our audit work, we have concluded that the Department is doing a commendable job in administering the Debtor Assistance Section and the Amusements Regulation Division. This includes an appropriate use of the result indicator system to measure the performance of these divisions.

Department of Finance
Provincial Tax Commission
Health Services Tax Division

Introduction

The Provincial Tax Commission, within the Department of Finance, comprises two divisions: the Gasoline and Diesel Oil Tax Division, and the Health Services Tax Division. The Health Services Tax Division carries out responsibilities for the assessment and collection of tax revenues under the Health Services Tax Act. These revenues amounted to over $560 million for the March 31, 1987 fiscal year, the third largest source of revenue for the Province.

The Health Services Tax Division performs such tasks as the registration of vendors, other taxpayers, and bona fide farmers and fishermen; the provision of information services to vendors and taxpayers; monitoring and collection activities regarding outstanding accounts receivable; auditing of vendors and taxpayers to ensure compliance with the Health Services Tax Act and the Regulations; and various related administrative tasks.

During the past year, my Office conducted a detailed review of the activities of the Division, not dissimilar to the one conducted in 1979, and reported upon in the Annual Reports of 1979 and 1980. The overall objective of this audit was to determine whether the Commission has adequate systems and controls in place to ensure complete and accurate collection and recording of Health Services Tax revenues in accordance with the applicable legislation. The more significant matters from our audit examination are presented under four headings.

Account Monitoring
Appeal Process
Audit Section
Computer Environment Review

Account Monitoring

The major responsibility of the account monitoring section of the Health Services Tax Division is to review vendor accounts and to initiate collection procedures to ensure the prompt recovery of outstanding accounts receivable. The Division fulfills this responsibility by working with vendors where possible so as not to impose undue hardship on business and industry.

The objective of our audit review in this area was to assess the adequacy and effectiveness of these collection procedures, and to assess the practices used when negotiating and monitoring payment arrangements for vendors with large outstanding unpaid balances.

On the basis of a relatively small sample of 20 accounts we reviewed, we found instances where the type and extent of efforts taken were not adequate to ensure collection of the account, and where collection efforts spanned an inordinately long period of time.

The sample size of 20 was not statistically derived. Accordingly, the sample cannot be considered representative of the entire population. However, the weaknesses that we have noted are likely to apply to a far greater number of cases than those identified in this sample.

In our audit review we also determined that:

— account regulation officers were inconsistent in the application of criteria for priorizing accounts for collection and action;

— the Department was not preparing an aged accounts receivable listing regularly, to readily identify outstanding accounts requiring collection activity;

— in all but one instance, the extended payment terms agreed upon were reasonable in the circumstances, although we noted inconsistencies in the documentation supporting these arrangements; and

— there was inadequate monitoring of those accounts to whom extended payment terms had been granted.

Accordingly, in our audit report to the Department, we included recommendations which covered the following matters.

- There is a need to enhance the Division's collection activity by improving the type and extent of collection action taken; reducing the time span for collection activity, and the length of time taken to hear appeals.

- Standard criteria should be used for priorizing vendor accounts for further monitoring and collection efforts.

- An aged accounts receivable listing should be prepared and made available to account regulation officers for their use in initiating collection activity. The Health Services Tax Division should also use this information to monitor overall progress in collections.

- Regarding accounts to which extended payment terms have been granted, revised procedures should be implemented to improve both documentation requirements for these arrangements, and monitoring of compliance with them.

Appeal Process

Section 18 of the Health Services Tax Act permits those dissatisfied with the decision of the Provincial Tax Commissioner, on a Notice of Objection, to appeal such decision to the Minister of Finance.

We reviewed this aspect of the Division's responsibilities to determine whether appeals were being addressed within a reasonable period of time, and whether portions of the assessments not being appealed were being collected.

In mid-calendar year 1987, 24 appeals were outstanding from previous years. However, by January 1988 all of these appeals had been ruled upon. We have recommended that appeals be addressed in as prompt a manner as possible.

Regulations provide that in those instances where vendors object to or appeal part of an assessment, the undisputed portion shall be collected. Although we found two instances where there had been no effort to collect the unappealed portion of assessments, this type of situation was not prevalent for assessments under appeal.

With respect to the appeal process, we believe that Government should seriously consider the feasibility of setting up an independent body for the review of and decision on appeals. Although we could find no fault with appeal decisions rendered by the Minister of Finance, the perception of independence and objectivity in these matters might best be maintained by having someone, other than those responsible for the administration of the Act, assigned the task of handling appeals.

Audit Section

The audit section of the Health Services Tax Division has the responsibility for auditing vendors, collectors and any others who are required to remit health services tax to the Province. This section determines whether there has been compliance with the Act and associated Regulations.

Our review of the audit section was directed to an assessment of whether it was achieving appropriate audit coverage of vendors and tax collectors, and whether the methodology used in carrying out its audits was satisfactory. We also assessed the adequacy of audit training provided to the audit staff.

We concluded that the section's objectives for audit coverage were reasonable for the number of vendors, tax revenues, and the audit staff available. It was also determined that the audit section exceeded their coverage objectives for the period which we reviewed.

We concluded that the methodology of the Division's audit section was adequate to assess compliance with the Act and associated Regulations. We did note, however, that more extensive use of statistical sampling techniques should be implemented, in order to improve the efficiency and effectiveness of the section's coverage.

With respect to audit training and staff development, it is our view that the existing training for an audit staff of 45 is insufficient. We contend that the Commission's program should be expanded to include further training in such areas as control systems documentation and evaluation, computer systems audit and controls, statistical sampling, and fraud awareness.

Computer Environment Review

The Health Services Tax Division uses computer resources within the Division, as well as at the Provincial Data Centre, for processing and monitoring vendor accounts. The computer resources within the Division are used primarily for data entry and inquiry purposes.

Our audit assignment included a review and assessment of the general environment controls over computer resources within the Division. We examined the organization of the computer activity; controls over development and maintenance of information systems, the actual operation of the systems, the processing of data, and security of computer resources; and documentation of systems and programs. As part of this assignment we did not specifically review all the Provincial Data Centre operations and controls used to process Health Services Tax information.

We found that controls over the computerized information systems and resources are generally satisfactory. There were certain recommendations we made to management to improve the information systems controls. It is our understanding these are being acted upon.

One significant observation resulting from our review was that the general access security guidelines of the Department of Government Services were not being complied with. User identifications and passwords were being shared among various staff and were not being kept confidential. We have recommended compliance with Government Services guidelines and other improvements, in order to prevent or detect unauthorized access to or loss of information.

Concluding Remarks

The Health Services Tax Division has collection and audit responsibilities for one of the Province's largest sources of revenue. Accordingly, the Division must maintain as effective an operation as possible to fulfill its mandated responsibilities.

Our overall conclusion is that the policies and practices of the Division were generally adequate, and that the staff was following them reasonably well. In particular, we found that the audit coverage attained by the Division's audit section was satisfactory. We have suggested that the staff training practices of this section should be expanded.

We identified several areas where improvements should be made.

- In the collection activity, there is need for more information on overdue accounts, consistency in the application of collection action criteria, and a closer monitoring of accounts.

- The process dealing with appeal of assessments must be one that ensures these appeals are dealt with expediently.

- In the computer data processing section, deficiencies were noted concerning access controls and other matters which management intends to address.

Department of Health
Hospitals

Introduction

Health care expenditures of $893 million were the largest single expenditure incurred by the Province during 1986-87. They accounted for 27% of total expenditures and represented an increase of $54 million or 6.4% over the previous year. The Estimates approved by the Legislature for the 1987-88 fiscal year show budgeted health care expenditures of $934 million, an increase of $41 million or 4.6% over 1986-87.

The 1986-87 Public Accounts indicate that $598 million or 67% of the amount expended for health care was used to support the general and psychiatric hospitals in the Province (excluding payment for the services of most physicians). Payments to physicians under the Medical Services Insurance plan (MSI) accounted for $180 million or 20% of the total. A description of our audit or MSI is found on page 94 of this Report.

Because of the magnitude, complexity and widely-expressed concerns about the impact of health care costs on the provincial budget, I decided that my Office should be more aware of the practices used to manage and control these costs.

Late in the 1986 calendar year, we decided to initiate a review of the Department of Health operations. Originally, we planned to devote our

efforts to the hospital expenditure segment of operations, and over a two to three-year period, we would:

- attempt to obtain a greater level of understanding of the organization, management practices and policies relating to hospital operations; and

- perform some limited operational reviews in certain hospitals.

Subsequent to our decision and some preliminary planning, the Minister of Finance's Budget Address of April 10, 1987 announced the formation of a Royal Commission to assess the costs of providing present health care services, and to recommend measures which might be taken to achieve greater efficiency in delivery of health care services. I support this initiative; nevertheless we will pursue our original plan. This is an area of such magnitude that our Office, in order to convey to the Legislature our assessment of how well it is being administered, must enhance our understanding of it.

Initial Coverage

As the first stage of our development of a greater level of understanding of hospital operations, we felt the need to survey the management practices of a hospital. We approached the Halifax Infirmary, for which we are the appointed financial statement auditors, for assistance. The administration of the hospital graciously agreed to provide some members of our staff with the opportunity to discuss hospital management with senior management and certain middle management officials. This endeavour was extremely beneficial.

The second stage of our review involved discussions with officials of the Department of Health. We met with two of the three regional directors; consultants in the areas of nursing, dietetics, laboratory, radiology, and construction and maintenance; and senior officials in the Finance area. These interviews provided insight into how resources are allocated to the hospitals, and the specific functions which these individuals perform, such as: review of budget requests; monitoring of hospital operating results; and provision of specialized advice to hospitals.

In addition to these interviews, we reviewed the information system and reports used by the Department of Health to analyse and monitor individual hospital performance. We also reviewed several articles and publications relating to health care costs and issues in Canada.

Observations

This initial phase of our work in hospital funding and monitoring was not intended to produce recommendations. However, there are several observations which are worthy of mention at this time.

Funding of hospitals — There are 49 hospitals in the Province, excluding clinics. Two of the largest hospitals are owned and operated by the Department of Health, and several others are crown corporations. Their operating budgets represent approximately 50% of the annual operating budget for all hospitals. The remaining hospitals are owned and operated by other parties. The Province appoints varying numbers of hospital Board members ranging from one to the full Board. Although the Province may or may not own the hospital, all are funded and monitored in the same way. The Department of Health allocates hospital operating funds, provided by the Province, based upon the predicted number of patient days for each hospital. The calculation of this figure incorporates catchment populations for each hospital, admission rates per 1,000 population and average lengths of stay for the most common diagnoses which the particular hospital has handled in the past.

The policy of the Department of Health is that the hospitals must absorb their own deficits, except if the deficit was incurred as a result of certain exceptional circumstances which must be approved by the Department of Health. The deficits of the provincially owned Nova Scotia and Victoria General hospitals are funded by the Province.

Departmental monitoring of hospitals — We reviewed the information system and monthly reports used by the Department of Health to monitor hospital financial and statistical data. They include comparisons of hospitals with averages for the Province, hospitals of similar size, and hospitals within the same geographic region. The Department uses performance indicators, such as average length of stay for each hospital cost centre and paid hours per patient meal day, extensively in the monthly monitoring process. On the basis of our review, we concluded that this system is acceptable.

Value-for-money auditing — Value-for-money auditing is concerned with auditing for due regard to economy, efficiency and effectiveness of operations. It is a major segment of comprehensive auditing.

At the present time, to the best of our knowledge, there is no value-for-money or comprehensive auditing being performed in Nova Scotia hospitals by either internal or external auditors.

In 1987, the Canadian Comprehensive Auditing Foundation released a report entitled *Canadian Hospitals — Accountability and Information for Cost-Effectiveness — An Agenda for Action.* The panel which produced this report consisted of three senior hospital administrators, two physicians and a partner in a national management consulting firm. The following is a series of relevant excerpts from that report.

> *"In an era of restraint, it is hardly surprising that health care expenditures are the subject of debate. The debate on health care does not, however, concern only the level of its funding; increasingly, the cost-effectiveness and quality of care are also being questioned. . . ."*
>
> *". . .comprehensive auditing might help health care organizations address the issues that face them. . . ."*
>
> *". . .comprehensive auditing provides an objective assessment of the extent to which accountability relationships are reasonably served and the extent to which financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness."*

It is my understanding that this report has received a great deal of discussion in certain areas of the country. In two cities, Montreal and Toronto, segments of the hospital and medical community are involved in efforts to implement recommendations of the study.

Because value-for-money audits have the potential to help hospitals improve the economy and efficiency of their operations, the introduction of this type of audit should be seriously considered by the hospitals and the Department.

Concluding Remarks

Discussions with officials, both at the Halifax Infirmary and the Department of Health, and our review of available health care

information aided us in achieving an understanding of the management process in hospitals.

We shall continue with further audit efforts in this area, which will likely involve an examination of certain functions in specific hospitals.

Department of Health
Medical Services Insurance

Introduction

Medical Services Insurance (MSI) is a government-funded health insurance plan for Nova Scotia residents, and includes a wide range of services offered by physicians, dentists, optometrists and pharmacists. The annual cost of providing these services exceeds $250 million.

By agreement with the Minister of Health, Maritime Medical Care Corporation (MMC) performs the administrative functions relating to these medical care programs, including:

— the registration of both recipients and providers of insured services;

— communication with recipients and providers regarding their entitlements and responsibilities;

— the receipt, assessment and payment of claims for insured services in accordance with established tariffs; and

— the conduct of appropriate review and audit procedures related to claims.

Section 14(1) of the Health Services and Insurance Act provides that the Auditor General annually shall examine the accounts of the Corporation to assess the reasonableness of the allocation of expenses between the Corporation's non-government private sector lines of business and its administration of the MSI program. In addition to performing this review, we had two other principal objectives for this year's audit assignment. These were an evaluation of the controls surrounding the Corporation's computer operation; and a detailed

review and assessment of the processing and audit of claims, including an analysis of the appropriateness of the internal audit function at MMC.

Our overall conclusion is that the MSI programs are being administered properly by MMC, and in accordance with legislation and regulations.

A detailed report has been submitted to MMC which includes our audit findings, conclusions, and recommendations. A summary of the more significant of these is presented below.

Audit Findings and Conclusions

Administrative Expenses — Our assessment of the fairness of the allocation of expenses between the MSI program and the Corporation's private sector business included a review of supervisory salaries, equipment rentals, computer services, office services and building occupancy costs.

It was our conclusion, as it has been in all previous years' reviews, that the expenses have been equitably allocated between the two types of operations being conducted by the Corporation.

Because the Government does not provide capital funding to MMC, most computer and office equipment used in the administration of the MSI program is leased rather than purchased. We recommend an analysis be done of the costs and benefits of leasing versus buying, and that capital funding be made available in those cases where savings can be realized by buying.

Computer Environment Review — Using criteria from the Canadian Institute of Chartered Accountants' *Computer Control Guidelines,* we concluded that controls over organization of the function, and the development and documentation of systems and programs were adequate.

However, certain minimum control standards were not being met concerning access to systems, and the development of appropriate disaster recovery and contingency plans. Subsequent to our audit, the Corporation has initiated a plan to provide for suitable recovery procedures.

Receipt, Assessment and Payment of Claims — Controls over the receipt, assessment and payment of claims, which we reviewed and tested, were satisfactory except for weaknesses identified in the verification process. Corrective action has since been taken to remedy these weaknesses.

Claims Audit Function — MMC is responsible for auditing claims to ensure that there is proper use of insured health services. It involves such techniques as sending patients a request to confirm that a given health service has been provided; review of patient use of services; profile reviews of physicians, dentists and pharmacies; as well as other appropriate tests and follow-up routines.

Our audit identified certain deficiencies in the performance of this claims audit function, such as:

- weaknesses in the application of statistical sampling techniques to an audit application;
- serious inadequacies in the system used to verify, with patients, claims submitted for services rendered;
- significant shortfalls in the degree of audit coverage in some areas; and
- inadequacies in the documentation of guidelines and results of audits.

As a result of our audit observations, corrective action has been taken, or is planned on a number of the deficiencies, such as:

- expanding the number of health insurance programs included in the confirmation process;
- ensuring that a specified minimum percentage of medical claims processed is confirmed;
- reviewing dentist profiles on a quarterly basis; and
- ensuring that all pharmacies in the Pharmacare program are audited at least once a year.

Internal Audit — The ongoing audit of claims is a task which should be performed by the group responsible for the actual disbursement function — in this case MMC. The various analyses and tests conducted are ones which in our view properly belong to MMC as part of its overall administrative responsibility for the Government's health insurance plans.

However, in my opinion, there is a serious void as there is no internal audit activity which independently reports on a regular basis to the Department of Health. This would include how well the MSI program is being administered with regard to legislative and agreement requirements, overall management considerations, and matters relating to the economy and efficiency of the operation.

It must be understood that the impetus for an internal audit activity of the type we recommend should not come from MMC but rather from the Department of Health. At present neither the Department nor its Health Services and Insurance Commission have internal audit groups with the mandate or capability to perform these audits.

Considering the size and complexity of these health insurance programs in Nova Scotia, it is important that as part of the accountability process there be a competent audit function independent of the administration of the program.

Accordingly, we have recommended that the Department of Health set up an independent internal audit capability responsible for the ongoing review of all aspects of public health insurance programs.

Internal Audit

Introduction

This is a follow-up to our review of the internal audit function conducted in all government departments in 1986. In last year's Report I stated that two fundamental issues had emerged from our audit.

- *"An overall policy statement on the roles and responsibilities of internal audit throughout the Government of Nova Scotia is required.*

- *There is need for an expanded audit scope beyond financial and compliance issues to include the economic and efficient use of resources."*

On the basis of this review, we determined the extent of internal audit activity in some departments, and the need for it in others. This may be summarized as follows.

- Five departments — Development, Finance, Housing, Social Services and Tourism — had an internal audit function in operation.

- The Department of Transportation had a group referred to as Internal Audit, which was essentially an internal control function, and not what we would consider to be internal audit.

- Four departments with extensive and complex operations should have had an internal audit function as part of their management control structure. These were the Departments of Attorney General, Education, Government Services, and Vocational and Technical Training.

Issue of Policy Statement

The Chairman of Management Board on January 5, 1988 issued a Policy Statement on the Internal Audit function to all Ministers and Chairs of Boards, Commissions and Agencies. The Board adopted the following policy with respect to the internal audit function within government departments.

"1. Management Board recognizes and supports the internal audit function as an integral part of the financial management controls of government.

2. The internal auditor, or head of an internal audit unit within government departments, should report directly to the Deputy Minister within a department.

3. Those departments that are not large enough to support a full-time internal auditor will be provided this service by another agency.

4. *The internal audit section of the Department of Finance will be expanded so that this Department can provide an internal audit function to those departments without an internal auditor. Results of internal audits performed for other departments by the Department of Finance will be reported directly to the Deputy Minister of the particular department."*

I acknowledge, as does Management Board, that this Policy Statement represents only the basic underlying policies concerning internal audit, and that additional guidelines and direction are necessary in order to effect an acceptable level of internal audit throughout Government.

It must be understood that the success of any program activity, such as internal audit, depends on the performance of those assigned the task. It will not be easy to staff this function throughout government, because experienced auditors are scarce, certain professional accounting designation programs do not provide sufficient audit training and experience, and the needs and complexities of the various departments will differ.

I have conveyed to Management Board that our Office will assist in the development of the internal audit capability as much as possible. This would be accomplished primarily through co-ordinating and presenting specialized audit related training courses, and the secondment of departmental auditors to our Office for periods of time to gain relevant audit experience.

Initiatives by our Office in both of these areas have been well received by government internal auditors. Two notable examples, both in 1987, were the secondment of a department auditor for a six-month period, and the attendance of over 30 auditors from other departments at a two-day seminar on fraud awareness, conducted by the R.C.M.P. and sponsored by our Office.

Other Developments

The following comments describe other developments since our 1986 review, and outline areas where additional policy direction and modifications to existing practices may be required.

New internal audit positions — The Departments of Advanced Education and Job Training, Attorney General, Education, Government Services, and Municipal Affairs have staffed, or taken preliminary steps to staff, new internal audit positions. A need will continue for an internal audit function in the Department of Solicitor General if the two positions being classified, prior to the Government reorganization, are both used in the Department of the Attorney General.

These staffing developments during 1987 represent worthwhile response to our recommendations, in that all departments we identified as requiring full-time internal auditors have now been assigned them. There remains only the need for enhancement of the internal control function in the Department of Transportation and Communication; and the requirement for internal audit in the Department of Solicitor General.

Need for expanded audit scope — In my 1986 Annual Report, I indicated that the most worthwhile activities of internal audit groups in other enterprises related to assessing the economic and efficient use of resources. We found little of this broader scope auditing being conducted in the departments of government in Nova Scotia. While many of the job descriptions include a mandate for broader coverage, generally the auditors were not fulfilling this aspect.

During 1987, there has been little, if any, expansion of audit scope into the areas of economy and efficiency of operations. The principal reasons for this are a shortage of resources, a need for strong central policy direction, and a requirement for training in this area.

Need for planning and risk analysis — We found in 1986 that there was little long-range planning by the internal audit groups which would permit the identification of all areas that should be subject to audit. This, combined with some form of risk analysis and priorizing of the areas, would have helped to ensure that proper audit coverage was being achieved.

Follow-up in 1987 revealed that emphasis on planning has experienced only marginal improvement. Assessment of the total department in terms of materiality and risk, in order to priorize where the audit emphasis should be, has occurred in only two departments.

Need for internal audit for smaller departments — The Management Board policy statement has assigned responsibility to the Department of Finance for providing internal audit coverage to those

smaller departments unable to support a full-time internal audit function. This policy statement also indicates that reporting on these audits will be directly to the Deputy Minister of the particular department.

Our study last year indicated support, by the Deputy Ministers of smaller departments, for the establishment of a central internal audit group that could be called upon for assistance. Our discussions this year lead us to believe that the development of such a centralized resource at the Department of Finance might not be able to meet this need for some time for the following reasons.

- The internal audit group at Finance has been predominately active in the financial areas with very little, if any, experience in the type of economy and efficiency auditing that is required by these smaller departments.

- The provision of a centralized resource will require a larger audit complement than has been assigned to the Department of Finance in the past, and the group has had difficulty recently in maintaining its approved complement.

Concluding Remarks

Management Board's Policy Statement of January 5, 1988 on internal audit meets the essential requirements of supporting this function as an integral part of management control for the departmental Deputy Minister. This should serve to foster the development of internal audit in those departments which have not had it.

We hope this policy will be expanded to include broader coverage of the economy and efficiency of operations. This, I believe, is necessary in order to provide Deputy Ministers with the information they require to discharge their management control responsibilities.

Internal audit in many enterprises has also provided a valuable, additional benefit. It has proven to be one of the better training grounds for future managers of operations, accounting and finance. This should be encouraged as it will enhance the interest of qualified people to work in the area. The Government should also encourage interchange of auditors among departments to bring a fresh outlook to the department, and a broadening of experience to the individual.

With the implementation of this Government policy, all departments will better understand the nature and benefits of internal audit. While my Office can provide some support, the major impetus has to come both from the elected heads and senior management of Government and the central agencies, to develop this essential function to its optimum.

Department of Labour
Fire Marshal

Introduction

My Office recently completed a review of the Office of the Fire Marshal within the Department of Labour. The objectives of our review were to determine if the Office is fulfilling its legislated responsibilities as outlined in the Fire Prevention Act and other relevant acts and regulations; and to assess the adequacy of the systems in place relating to the inspection activities conducted by the Fire Marshal.

Section 8(1) of the Fire Prevention Act lists the legislation for which the Office is responsible including the Fire Prevention Act and Regulations, the Standard Hose Coupling Act, the Lightning Rod Act, the Electrical Installation and Inspection Act and Regulations, the Liquefied Petroleum Gas Installation Equipment Regulations, the Fireworks Act, and all other acts, regulations and by-laws relating to the prevention and suppression of fires.

We confined our review to the Fire Marshal's activities relating to:

— the inspection of fire hazards and building plans under the Fire Prevention Act;

— electrical inspections under the Electrical Installation and Inspection Act; and

— liquefied petroleum (L.P.) gas inspections under the regulations concerning L.P. gas installation and equipment.

In the performance of this assignment, we attempted to determine whether there were systems in place to ensure:

— all buildings and installations requiring inspections are identified;

— inspections are conducted on a timely basis;

— others with responsibilities under certain acts are complying with legislated requirements;

— documented criteria for inspections are available;

— work of inspectors is consistent;

— inspections are adequately documented;

— adequate and timely follow-up procedures are done on reported deficiencies; and

— deficiencies are treated in a consistent and impartial manner.

Our overall conclusion is that the Office of the Fire Marshal has not been able to perform fully the role contemplated under the various acts and regulations. The principal reason for this is the limited resources available to the Office. Accordingly, there is a need to provide enhanced resources to the Office, reduce responsibilities in certain areas, or attempt to have some of the responsibilities assumed by municipalities and other bodies, or a combination of these options.

The more significant observations resulting from our audit appear below under four captions.

Inspections for Fire Hazards
Liquefied Petroleum Gas Inspections
Building Plan Approvals
Electrical Inspections

Inspections for Fire Hazards

Three relevant sections of the Fire Prevention Act are:

— Section 8(3)(c) which calls for the inspection of premises for fire hazards from time to time as the Fire Marshal deems necessary;

— Section 19(1) which makes it the duty of every municipal council to provide for the inspection, at least every four months, of hotels, theatres, skating rinks and places of public resort and amusement; and

— Section 19(2) which places the same requirement on municipal councils regarding schools.

We were informed that many municipalities fail to meet the above responsibilities, mainly because municipal employees lack the required training to conduct inspections properly. Therefore, the Fire Marshal's Office conducts a large number of inspections at the municipal level.

It must be recognized that in certain areas the Fire Marshal does not have the legislated responsibility for inspections; this is in the hands of the municipalities. Accordingly, the role of the Fire Marshal can often only be one of encouragement and suggestion, rather than enforcement, where deficiencies in the inspection process exist.

The principal audit observations arising from our review in this area are as follows.

- The inspection intervals for schools, a municipal responsibility under Section 19(2) of the Act, seem unduly lengthy.

- The Fire Marshal's Office has not been able to carry out its inspections of hospitals within the frequency it would like.

- The frequency of inspections for certain types of institutions has been determined more on the basis of licensing requirements than on an analysis of the fire risks.

- Municipalities are not required to submit information to the Fire Marshal's Office which would permit monitoring of compliance with the Act.

- There does not appear to be an adequate system to ensure deficiencies noted on inspection reports are followed-up on a timely basis.

Liquefied Petroleum Gas Inspections

In accordance with Section (1)(g) of the Fire Prevention Act, the Fire Marshal is responsible for administering the Liquefied Petroleum Gas and Installation Equipment Regulations. These regulations do not require periodic inspections by the Fire Marshal's Office.

Our audit indicated the following matters concerning this aspect of the Office's responsibilities.

- The Fire Marshal's Office does not maintain a master list of those installations for which it has inspection responsibility.
- Because of manpower limitations, repeat inspections are rarely conducted unless deficiencies are noted on the initial inspection.
- There is a need to initiate prompt follow-up action on reported deficiencies.

Building Plan Approvals

Section 28 of the Fire Prevention Act requires architects, designers or owners to submit plans for construction or renovation of buildings to the Fire Marshal's Office for approval. Exempted from this requirement are one and two-family dwellings. Plans for buildings in larger municipalities are approved by city plan examiners. The Fire Marshal's Office approves all other plans for building construction and renovation from the rest of the Province.

There is no formal system in place to ensure that plans are submitted for approval for all new construction or alterations. However, we noted that in a number of municipal units, building permits will not be issued unless there is a Fire Marshal approved plan available.

We observed that the Fire Marshal's Office conducts very few on site inspections, because of the large number of plans submitted for approval and the lack of manpower to conduct them. This situation is compensated for, to a limited extent, by the work of municipal building inspectors.

Electrical Inspections

The Fire Marshal is responsible for administering the Electrical Installation and Inspection Act and regulations, in accordance with Section 8(1) of the Fire Prevention Act. This Act calls for mandatory inspections of all electrical installations, including any alteration or addition to existing ones. In actual practice, electrical inspections are conducted by public utilities, principally the Nova Scotia Power Corporation.

We did not review the performance of this function by public utility inspectors. However, on the basis of our examination at the Office of the Fire Marshal we derived two significant observations.

- Regulations permit inspection fees to be charged, but these have not been increased since 1979.

- The Fire Marshal's Office does not have the resources to monitor the completeness and thoroughness of the inspections, the responsibility for which has been delegated to the public utilities.

Conclusions

Our overall conclusion is that the Office of the Fire Marshal has not performed fully the role we perceive is contemplated for it under the various acts and regulations pertaining to fire prevention.

It is our opinion that the limited resources available to the Office is the principal reason for this situation. In spite of this, we saw evidence of a conscientious staff attempting to fulfill their duties in a responsible manner.

It is important to note that the Act does not specifically require the Fire Marshal to ensure that the municipalities perform certain inspections. However, it would not seem unreasonable to assume that the Fire Marshal's role in fire prevention implies that he monitor in some manner, adherence by municipalities to the provisions of the Act.

In addition to our overall conclusion regarding performance of the Fire Marshal's role, and the limited resources available to his Office, the following observations are worth reiterating.

- Time intervals between inspections for certain buildings seem unduly long.

- Follow-up on deficiencies revealed in the inspection process is often late, if at all.

- Certain inspection schedules are determined by licensing requirements which are not necessarily related to fire risk.

- The work of others to whom inspection responsibilities have been delegated, such as municipalities and the Nova Scotia Power Corportion, is not adequately monitored.

- On site inspections for new buildings are not performed on an extensive basis in some areas.

Reaction to our report by the Department was positive in that there was an acknowledgement of the audit findings and observations, and general agreement on our recommendations. Moreover, we have been advised that corrective action has taken place in some areas, and further initiatives are planned, as summarized in the following tabulation.

- A thorough reexamination of inspection schedules with various departments and agencies concerned, in order to reflect risk considerations as opposed to licensing requirements, is planned.

- Increased training is intended for those to whom certain inspection functions can be delegated.

- An enhancement of the Department's computerized information capability is currently underway, which should enable development of a liquefied petroleum (L.P.) installation master list, and provide more current data to improve follow-up routines for certain types of inspections.

- Attempts are being made to foster arrangements with certain municipalities whereby:

  — building plans must be approved by the Office of the Fire Marshal before building permits are issued; and

— deficiences noted by the Office of the Fire Marshal in the review of plans can be conveyed to municipal building inspectors for follow-up.

- The response time in reaction to inspection deficiencies has already been reduced for L.P. inspections, and efforts are planned to reduce the response time in other areas.

- Improved follow-up routines and procedures for use by Deputy Fire Marshals are being instituted.

Result Indicators

Introduction

During the fall of 1987 my Office completed the first phase of a review of the use of result indicators in Government departments. Since the result indicators process was introduced, I have supported it in my Annual Reports. This is the first time, however, that my Office has conducted any detailed work in this area.

Result indicators may be defined as selected measures of the efficiency and/or the effectiveness of programs and support activities. Systems incorporating result indicators are generally referred to as performance measurement systems, and the type of indicator will normally determine the level of management for which it is most useful.

In the Government of Nova Scotia Management Manual 200, Chapter 4, the need for performance measurement systems is well-articulated. The following quote from the Manual stresses the importance of such a system for controlling the operations of any organization:

> *"The performance of any organization or organizational unit needs to be measured because the knowledge thus derived provides essential information for planning and controlling its operations. Without a knowledge of the organization's performance, a manager cannot accurately relate the staff and other resources required to a given workload demand."*

When Management Board was created in June 1979, one component of its mandate was program evaluation. A broad program

evaluation strategy, which would evaluate the socio-economic impact of provincial programs, was ruled out because of its high cost and the inexperience of the Province in this field. Rather, it was decided that a more effective way to initiate program evaluation would be to establish an effective performance measurement system at the budget subject level, and to build upon that experience and expertise in the years ahead.

The intention was that the process complement and supplement two systems already begun: "The Management Planning and Budgeting System", and "The Management Compensation System". When described as a building block process, the intent was that the original indicators would be at the budget subject level of the Management Planning and Budgeting System, with the major concentration being on operating outputs, those of most interest and importance to the first and second levels of supervision.

Objectives and Scope

We decided to review the process over two fiscal years. The first phase, conducted during 1987, had as objectives the obtaining of:

— an overview of the result indicators process;

— an understanding of the role of Management Board in the process; and

— an awareness of the stage of implementation which the various departments had achieved.

During the second phase, to be conducted during 1988, our objectives will be to review:

— the appropriateness of the particular result indicators developed in each department; and

— the uses of the results information in the departments.

The first phase consisted principally of discussions with Management Board officials and staff, and a review of correspondence and other documentation concerning the development of the process. We reviewed the result indicators which the departments submitted to the

Board as part of the budget process for the 1986-87 and 1987-88 fiscal years. Our only major contact with the departments was in the form of a questionnaire sent to all departments.

Requirements of a Performance Measurement System

A performance measurement system will only achieve its full benefit when it moves beyond the operational output level to the program output and program effect levels which are most applicable to higher levels of management. The following meanings may be applied to the three levels of output indicators.

- **Operational Outputs**
  Operational outputs are related to work processes or what must be done to deliver a program. Such outputs can frequently be measured, predicted into the future for staffing and funding purposes and later verified. They are frequently representative of the budget subject level and they are particularly valuable in developing efficiency measures. Examples of operational outputs might include security patrols conducted, the number of photocopies made, and the number of training courses conducted.

- **Program Outputs**
  Program outputs primarily provide services which are recognized as benefits to the public. Such outputs come closer to measuring the achievement of departmental objectives than do operational outputs, and are therefore of particular interest to senior management. While quantifying these may often be more difficult, the control of output by program managers is usually possible. Examples of program outputs might include security improvements, and the number of trainees completing a training program.

- **Program Effects**
  Program effects represent the intended and unintended results or consequences of producing the program outputs. These results come closest to reflecting whether or not program objectives have been achieved. They are frequently difficult to measure, and factors external to the program may also influence the result.

The result indicators used will often be a number of indicators combined, such as several statistics on various types of crime to provide a composite picture in a community. Since factors beyond the control of program managers can influence this level of result, managers can usually only forecast rather than target the outcome. Examples of program effects may include crime deterred in the case of a security patrol program, and the increase in the level of skill of workers in various trades as a result of an apprentice training program.

Observations

Certain of the more significant observations emanating from the first phase of our review appear below.

- **Purpose** — We perceived what appears to be a basic misunderstanding between Management Board and the departments concerning the purpose of the result indicators process being developed within departments. Management Board officials indicated that they look upon result indicators as part of the management process within departments. However, responses to certain of the questionnaires seem to indicate that some departments are not using this process as a key component in the performance of their management responsibilities.

- **Management Manual 200** — Management Manual 200 does not stress the intended building block effect of working upward to program outputs and program effects. Instead it places emphasis on the use of result indicators as being more beneficial at the first and second levels of supervision. In our view, this emphasis is not wholly consistent with Management Board's intention to have this process a building block one that fully involves and seeks the commitment of senior management. The building block process has developed very little beyond the first and second levels of supervision.

- **Lack of Compliance** — The provision to Management Board of result indicators as part of a department's budget submission was made mandatory commencing with the submission of the 1986-87 budget. Not all departments submitted result indicators for the 1986-87 fiscal year, and compliance to the mandatory provision deteriorated further in the 1987-88 fiscal year.

- **Use in Budget Process** — On the basis of those questionnaires returned to us, we found very little indication that the result indicators played a significant role in the budget negotiating process. Documentation at Management Board pointed out that, at least initially, performance measurement techniques were to be an integral part of the new budgetary system, and would be required to ensure that the budget system would become fully effective as a planning and management process.

- **Growth of the Process** — The introduction of the result indicators process was led by the Director of Program Evaluation, and certain departments and functions were selected as pilot projects. Management Board Officers assisted on the initial pilot projects, and were to continue by encouraging the development of result indicators in the remaining departments.

  Our interviews with Management Board staff indicate that there has been a decline in the introduction and use of the result indicators process in more recent years, except for the continued use of it in the original pilot departments.

Concluding Remarks

We intend during the second phase to review in more depth the result indicators being developed and used by the departments of government. Several comments are worth noting based upon the results of completion of the first phase of our review.

- Management Board should consider placing a higher priority on the development of performance measurement systems in departments. Departments should be required to establish milestone dates, and submit progress reports to Management Board on the further development of their performance measurement systems.

- Management Board should consider revising and issuing additional policy direction through Management Manual 200. The direction should clarify the role of Management Board, and only request the submission of those result indicators which they intend to use.

- The policy direction from Management Board should indicate the responsibility of departments to develop their performance measurement systems to the levels of program output and program effect within an established time.

- The development of performance measurement systems within departments must receive the full support of the Deputy Minister. A qualified person or persons should be responsible for the development of the system to the program output and effect levels of indicators.

Review of Recipients' Management of Grants and Assistance

Introduction

In previous Annual Reports, I have stated my concern over the degree of monitoring of grants and assistance. Grants and assistance make up approximately 70% of government's current operating expenditures. Put another way, $7 out of every $10 of government current expenditures are spent by a third party.

I suggest the Government has three responsibilities with regard to these payments, which are to ensure:

- that the development and application of financial controls within the departments for payments are made under proper authority and to eligible recipients;

- that the total dollar value of grants and assistance is used by recipients for the purposes intended; and

- that the money is being spent with due regard for economy, efficiency and effectiveness of operations.

Previous studies conducted by my Office have revealed that departments providing grants concentrate principally on prepayment financial controls, including eligibility of the potential recipient. I have also commented in previous Annual Reports that the mandate of this Office does not extend to monitoring recipients, whereas the majority of

other provincial Legislative Auditors (five of nine) do have such a mandate in their audit acts. In addition, three others have varying degrees of authority to perform such audits.

Objectives and Scope

The objective of our review during the fall of 1987 was to determine the extent to which major departments providing assistance and grants evaluate the management by recipient organizations of these funds, with particular emphasis on value-for-money considerations.

We limited our scope to four departments: Education, Health, Municipal Affairs and Social Services. Together they made up close to 80% of the approximately $2 billion in current operating grants and assistance during the past year.

Observations

Education — The following comments pertaining to the Department of Education applied prior to the recent reorganization of government departments. During the 1986-87 fiscal year, operating grants to school boards were $518 million and assistance to universities was $176 million. Following are our observations about the Department's monitoring of these funds.

Concerning grants to school boards

- They are subject to a review of financial statements by the Department, principally for the final settlement of accounts.

- Inspection reviews of one or two school boards are conducted annually with the principal emphasis on curriculum, but with some assistance to the school boards on broader administrative activities.

- No broader scope audits relating to the management of the organizations, or the economy and efficiency of operations, have been carried out by the Department.

Concerning assistance to universities

- Universities are subject to an annual financial statement audit by their auditors. They also provide certain information to the Maritime Provinces Higher Education Commission in support of future funding. They are, however, not subject to audit or inspection of a broader scope nature by the Province, and I am not aware of any university in Nova Scotia having an internal audit function.

Concerning legislation

- Both the Education Act and the Universities Assistance Act contain a general provision permitting conditions to be attached to grants and assistance. We found no indication that Government had considered the right of audit or review as a possible condition.

Our overall conclusion is that the Department is meeting its responsibility regarding pre-expenditure controls of grants and assistance to school boards and to universities.

There is, however, no monitoring mechanism to determine whether money is being spent with due regard for economy, efficiency and effectiveness in the case of either school boards or universities and, in the case of universities, whether money is being spent for the purpose intended. With annual expenditures in this area approximating $700 million, this appears to be a significant void in the Government's monitoring system.

Health — We limited our review to operating grants to hospitals, which totalled $567 million during the 1986-87 fiscal year. Following are our observations relating to the Department's monitoring of these funds.

- Information systems in use provide all hospitals and departmental officials with comparative operating information. For each hospital, departmental cost centre information is compared to provincial and regional averages and hospitals of similar size.

- A year-end review of financial statements is carried out for final settlement of accounts for each hospital.

- The Health Act contains a general provision permitting conditions to be attached to grants and assistance. We found no indication that management has considered the right of audit or broader scope review as a possible condition.

The Department through the efforts of its regional directors, functional area consultants, and accounting counsellors does analyze various aspects of all the hospitals' operations. This includes regular visits to them, and a continuing dialogue with their administrations and boards.

Thus, there is achieved a reasonable assessment of each hospital's economy and efficiency of operations, even though there is no formalized program to review regularly every hospital to determine whether its management is performing adequately with due regard for economy, efficiency and effectiveness.

Although we recognize the Department's achievements in monitoring hospitals, we contend there should be a more formalized and regular review for the economy, efficiency and effectiveness of their operations. This could be conducted by an enhanced internal audit group in the Department, working in conjunction with the regional directors and functional area consultants of the Health Care Institutions Division of the Department.

Municipal Affairs — Grants and operating assistance to municipalities exceeded $55 million during the 1986-87 fiscal year. These may be classified as conditional or unconditional. Following are our observations relating to the Department's monitoring of these funds.

- Conditional grants, including emergency funding to selected municipalities, were found to have stringent requirements attached and were closely monitored by the Department.

- Unconditional grants generally are allocated and disbursed by formula. In the case of operating grants to municipalities, the largest of the grants disbursed, the Province decides on the total amount available for allocation, and the municipalities take these grants into their general revenues. It seems reasonable for there to be no additional monitoring by the Department in view of the low percentage of municipal revenues attributable to these grants.

- The Department has, within the past year, staffed an internal audit position. The position description provides a broad scope mandate, but as yet there has been no audits of recipients concerning due regard for economy, efficiency and effectiveness of operation.

The Department is monitoring grants to recipients to the extent required for compliance with conditions, but must consider developing its internal audit capability to include broad scope audits.

Social Services — Payments in any particular year total more than $250 million, and cover such areas as — payments to organizations to perform specific services; payments for the operation of several types of homes; payments to municipalities for cost-sharing of various facilities; and direct payments to individuals for family assistance, rent subsidies, and property tax rebates. Following are our observations on the Department's monitoring of these funds.

- This Department has the largest internal audit group in the Provincial Government. Their work is carried out in social service agencies throughout the Province, with most of their audits of a financial and accounting control nature. The auditors review financial records, prepare balance sheets and revenue and expenditure statements, as well as statements of grant shareability. They also audit the administration by institutions of trust funds for those incapable of managing their own money.

- The mandate of the internal audit group includes the evaluation of the economy and efficiency of operations of the Department. This broader scope mandate is currently being exercised only to a limited extent because of other workload demands.

- Payments over $50 million annually provide cost-sharing to municipalities in their operation of various facilities for the care of individuals requiring assistance. These facilities are subject to financial audits, on a cyclical basis, by the internal audit group of the Department.

- Family benefit payments, approximating $120 million, make up the largest expenditure of the Department. These are unconditional payments to individuals based on need, and the Department has an extensive set of pre-expenditure controls ensuring eligibility of the recipients. Our office performs an

annual audit of family benefit payments, and we have concluded that the Department's controls are adequate. Pre-expenditure control is the maximum control required for this type of payment.

- Many of the payments of grants and assistance are to third parties, for the maintenance of individuals requiring social assistance. Those requiring assistance have, in most cases, been referred by a social worker of the Department, and the worker provides a degree of monitoring of these payments.

We believe that the Department of Social Services is monitoring grants to recipients to the extent possible, given the resources at their disposal. If an expanded internal audit group is possible in the future, it would be worthwhile to incorporate broader scope value-for-money auditing, as currently described in their mandate.

Concluding Remarks

My primary concern about the monitoring of grants and assistance is that a broader scope audit and review of economy and efficiency is not being performed by most of the departments concerned. Three of the four major departments do have a degree of analysis which sometimes goes beyond pre-expenditure control and compliance review. In some cases there is not a clear mandate authorizing a broad scope audit review and, unfortunately, in most cases there currently is not the capability to perform one.

In addition, as also discussed in the Accountability article of this Report on page 38, the Legislature is not provided with an independent audit opinion by its Auditor General on how well these dollars are, in fact, being spent by recipient organizations. This is because the mandate to review transfer payments has not been included in the Auditor General Act.

For example, there is no broad scope review of assistance to universities. It has been argued that because of academic freedom considerations, the autonomy of university operations in our Province precludes any type of review by a Legislative Auditor. However, I maintain that there is an overriding accountability responsibility concerning the management of public funds that requires independent analysis and reporting to the Legislature. The 1985 *Report of the Nova*

Scotia Royal Commission on Post-Secondary Education states that *". . .accountability is more necessary than ever in a time of restricted economic growth and consequently of constraint in the funding that may be made available to the universities".*

The acts of five other provinces provide that the Legislative Auditor may conduct audit reviews of the universities, and in five provinces he is the appointed auditor of all universities in the province.

Accordingly, I reiterate what I have stated on several occasions. Broader scope audit reviews should be performed on all major recipients of government grants and assistance. These reviews may be performed by the entities' own auditors, internal auditors of the relevant government departments, or by the Office of the Auditor General. Regardless of who performs these reviews, the results must be accessible, so that the Legislature can be informed regularly through its Auditor General, about how well taxpayer dollars are being managed.

Department of Tourism
Resort Hotels

The Department of Tourism operates three resort hotels owned by the Province of Nova Scotia. These are Keltic Lodge, Digby Pines, and Liscombe Lodge. On a regular basis, usually bi-annually, we review the operations of these hotels, concentrating on accounting and financial controls. During 1985, we conducted an audit review of much broader scope.

The objectives of that assignment were to analyze the operating performance of the resort hotels over the prior three years, and to assess the adequacy of the financial and management systems in use at the hotels and at the head office of the Department. The results of the audit were reported in some detail in my 1985 Annual Report.

During the current audit year, we undertook a follow-up to assess the progress in implementing the recommendations made in our 1985

audit report. A summary of the results of the follow-up review is presented below under the four categories used in our 1985 Annual Report.

Operating Results and Disclosure
Management Control and Information Systems
Facilities and Property Management
Accounting Systems and Controls

Operating Results and Disclosure

In my 1985 Annual Report, a schedule presented the operating results of the three hotels in total for the years 1983, 1984 and 1985. This schedule included charges for operating costs for maintenance, insurance and employee benefits which were not being charged to the hotel operations. In addition, we calculated depreciation and interest charges in order to arrive at an estimated full cost of the operation for the three years.

The reason for the presentation of this schedule in 1985 was my concern with what I considered to be inadequate disclosure of the operating results in the Public Accounts. All that was being reported at that time were two amounts, one for revenues and one for expenditures. This disclosure did not reflect certain operating costs, nor were the results segregated by individual resort hotel.

I am pleased to report that the 1987 Public Accounts of the Province will include a statement of revenue and expense for the fiscal year ending March 31, 1987, which will include results for each of the three hotels in considerably more detail than has been previously reported. For the March 31, 1988 fiscal year, the Department is to prepare a full set of financial statements for inclusion in the Public Accounts which will include an audit opinion by our Office.

Consistent with Government accounting practices, these financial statements will not include any charges for either depreciation, or interest on the investment in the facilities. Although we included estimates for these two items in the schedule presented in our 1985 Annual Report, we cannot fault the Department for not including them at this time. It would be our preference to have these financial statements reflect all costs, on a basis comparable to similar commercial enterprises. However, we acknowledge that the 1987 disclosure should be far more informative than what has been presented in the past.

Management Control and Information Systems

At the time of our 1985 review, we concluded that the management information systems generated regular operating reports which were appropriate, timely and consistent with industry practice. We suggested that there might be greater use of certain operating ratios to assist in management control of the hotel operations, and also that certain aspects of the budgetary process, particularly revenue estimates and ratios, could be improved.

The Department has initiated significant improvements in this area, including such items as:

— introducing several new performance and operational ratios to measure operating results on an ongoing basis;

— developing a five-year capital improvement plan, and a three-year marketing plan;

— improving the rate setting process, involving more detailed analysis of profit margins and comparable industry rates; and

— enhancing the Department's Policy Manual for resort hotel operation.

All of the foregoing have contributed to an enhancement of the management information control system, and the ability to manage the hotel operation more effectively. The Department is to be commended for its initiatives in this area.

Facilities and Property Management

The Department appears to have made substantial improvements in the property management area. In our 1985 report to them, we had many observations from our reviews at the three hotels. Most of these have been addressed by the Department.

Perhaps the most meaningful initiative relating to this area has been the development, in conjunction with the Department of Government Services, of a five-year development and improvement plan. This plan addresses the capital and maintenance requirements for the three resort hotels, and is a sound approach to the management of the physical plant.

Accounting Systems and Controls

Our 1985 Report included an assessment of accounting and financial procedures and controls relating to such areas as cash receipts and disbursements, receivables and revenues, personnel and payroll, purchasing, and inventories. Our Office has carried out regular audits of the hotel operation in these areas at least every two to three years. Considerable improvement has been noted in recent years in both the types of procedures and systems utilized by the hotels, and the staff administration of them.

Since 1985, the Department has taken positive action to address most of the significant recommendations we made, and we are pleased with the degree of progress they have achieved.

We also assessed the appropriateness and extent of the Department's internal audit effort with respect to its hotel operations. At that time, we stated that in our view, internal audit activity had not been as extensive as was warranted by the size and complexity of these operations. Far more time is now being spent by the internal auditor on the resort hotel operations of the Department, and there is also a greater degree of monitoring being exercised by financial management at the Department's head office.

Conclusion

We have acknowledged that the responsibility for the successful operation of these hotels, both by the resident management groups and by the Department's Halifax Office, is one of magnitude and difficulty. We stated in our 1985 Report that it might not be possible to address all of the conditions that we had suggested for improvement, because of financial constraints and other priorities.

However, in the course of our current follow-up review, we found that the Department had undertaken a deliberate and well-organized approach to those matters presented to them in our report. The Department also had been able to address most of our recommendations, or were in the process of implementing improvements relating to them.

The results achieved from this audit assignment gave my Office a special degree of satisfaction because we were able to assist the

Department in achieving better overall management of its operations and responsibilities. Accordingly, I must commend the senior management of the Department for the positive manner with which they reacted to our recommendations, the organized approach they adopted to address our suggestions, and finally, the beneficial results which have been achieved.

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OTHER AUDIT OBSERVATIONS

Introduction

During each year, my Office performs many audits in the departments of government, reviewing their accounting and financial systems and examining transactions. The extent and variety of these audits is shown in Appendix II to this Report, which tabulates the 30 audits performed in 12 departments during the current audit year.

These audits are done to fulfill the audit mandate of Section 7 of the Auditor General Act. Section 8 of the Act requires that I report certain specific items that come to my attention during these audits. This requirement is met by the items included in this section of my Report and in the article on Additional Appropriations, page 58.

The articles under this caption "Other Audit Observations" may be termed "reporting by exception", discussed briefly in the Introduction section of this Report.

Accounting Function Performance

In the conduct of our financial statement opinion audits this year, we found the general degree of readiness by audit clients to be unsatisfactory in a number of cases. Management has the responsibility for preparing financial statements and supporting documentation. In situtations where management did not adequately fulfill this responsibility, we frequently performed the procedures that client staff should have. As a result, the total hours devoted to certain assignments, and the time period over which they spread, were significantly above our budgeted allowances.

This situation has been encountered previously, and was discussed in an article in our 1982 Annual Report. In it, four audits were identified where excessive delays had been experienced and additional audit time was required. We suggested that improvements would have to be made in the performance of the accounting function, otherwise it would not be possible to commit our staff to the completion of the audits concerned.

For the March 31, 1987 financial statement audits, we encountered delays totalling over 900 hours, at a cost to this Office of nearly $40,000 in audit time. To compensate for this excess, we had to cancel or defer

other scheduled audit assignments. This is not an acceptable alternative for a Legislative Audit Office, nor is it our role to perform accounting functions which are the responsibility of management. It is not necessary to identify all of the situations we encountered, other than to note that two of them are the audits described in the article on page 143, Reservations of Opinion.

In January 1988, a national firm of chartered accountants completed a review of the performance of financial statement audits by our Office. Two relevant observations from this study where that clients were not preparing sufficient working paper support documentation to facilitate the audit, and our Office was not dealing firmly enough with situations when we encountered delays because a client was not ready.

The principal underlying reason for this situation seems to be the lack of priority given the accounting stewardship responsibility in certain entities we audit. In particular, there is a more casual attitude than we feel is warranted about having the accounting records in proper condition for the audit; and often a reluctance to provide the support material necessary to expedite completion of the audit.

These delays in completing our financial statement audits affect our ability to perform other scheduled audit assignments. As a result, the following procedures will be adopted for our March 31, 1988 fiscal year audits.

- We shall communicate in writing to all audit clients of this Office, well in advance of the fiscal year-end, our planned commencement and completion dates for the audit, our budgeted staffing, and most importantly, the specific requirements for readiness of the accounts and preparation of support material.

- In those cases where we encounter situations of unreasonable delays which will significantly add to the cost and completion date, we shall withdraw from the audit and return at a time convenient to us.

- In those cases where we encounter unreasonable time and cost overruns in the performance of the audit, due to performance deficiencies on the part of the client, we will be required to bill the client for the excess time incurred by our staff. This excess time will be billed not only to those audit clients who are currently on a charge basis by the Office, but also to those who are currently not subject to an audit fee.

This billing alternative must be introduced, because to complete our audit schedule it may be necessary to engage outside auditors for either the audit concerned or other audits which were scheduled for the period. This Office cannot continue to absorb excesses, simply by the alternative of cancelling or deferring audits which should and must be performed.

There will be situations where, due to unanticipated circumstances largely beyond the control of the client, delays will be encountered. It is not our intention to use any of the above alternatives in those situations. Rather, our desire is to initiate a more formal and clearly understood requirement between the client and ourselves, agreed upon well in advance of the audit. This should establish appropriate performance responsibilities for the client's accounting staff, which will permit the audits to be performed in a more efficient manner.

Cash and Other Losses

Pursuant to Section 8(1)(e) of the Auditor General Act, I report the following incidents of "deficiencies or losses through fraud, default or mistake of any person", covering the fiscal year ended March 31, 1987.

Atlantic Provinces Resource Centre for the Visually Impaired

This institution reported the theft of equipment valued at $740. There was no conviction or recovery.

Department of Attorney General

A trust fund cheque for $475 issued by the Nova Scotia Legal Aid Commission was fraudulently cashed. Although the accused person pleaded guilty to the charge, there was no recovery as the court did not order restitution.

Department of Culture, Recreation and Fitness

Sterling silver valued at approximately $1,254 was reported missing from a craft studio. The matter was reported to police but there was no conviction or recovery.

Department of Government Services

A break and enter at a warehouse in Halifax resulted in the theft of used surplus equipment valued at approximately $7,300. The theft was investigated by the police, but with no conviction or recovery of the stolen items.

Department of Lands and Forests

Cash losses totalling $632 occurred at the Department's Waverley office as the result of two break-ins. Police investigations were carried out, with no conviction or recovery.

Public Service

The Protocol Office reported a petty cash loss of $381 which, as the result of a police investigation, was fully recovered. The Office also experienced a loss of Government gifts (lobster aprons) valued at $5,984 for which there was no recovery.

Department of Transportation

The Bedford Regional Office lost $100 in cash with no recovery.

The value of equipment stolen or lost during the fiscal year is estimated at $14,913. The thefts or losses occurred at various locations throughout the Province.

Department of Vocational and Technical Training

Two break-ins at the Dartmouth Regional Vocational School arena resulted in the theft of $630 in cash, and $2,000 in cheques. Both break-ins were investigated by police; however, no arrests or convictions were made. The school was able to recover $2,000 by having stop-payments issued on the cheques, and obtaining replacement cheques.

Losses under $100

The following losses in amounts of under $100, for which there has been no conviction or recovery, are reported.

Department of Agriculture and Marketing	$ 43
Department of Attorney General five cash losses totalling	$158
Office of the Speaker	$ 25
Cape Breton Adult Vocational Training Centre loss of an electric grinder	$ 76

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Management Manual Bulletin

On December 31, 1987 Management Board issued a Management Guideline prescribing the procedures to be followed by departments for "Reporting Losses or Irregularities to the Minister of Finance".

This updates a 1964 bulletin, and is in response to recommendations in both my 1985 and 1986 Annual Reports, and earlier articles in 1981 and 1982.

Computer Related Audits

Introduction

In previous years, this Office has reported the results of our audits of computerized information system controls. These assignments are carried out in departments and agencies where computerized information systems are used for accounting, financial, and other management-related activities. They include the review and evaluation of general environment and processing controls.

The review of general environment controls examines procedures for the management and use of computer resources and covers areas such as:

— organization of the information systems activity;

— controls over development and maintenance of systems;

— controls over the operation of systems, processing of data, and security of computer resources; and

— documentation of systems and programs.

The review of processing controls covers the specific procedures, whether computerized or manual, relating to the individual systems. These controls are intended to ensure the completeness and accuracy of the data processed, as well as the adequacy of authorizations and audit trails.

Our evaluations of general environment and processing controls are based primarily on the control objectives and minimum control standards as outlined by the Canadian Institute of Chartered Accountants (CICA) in its publication, *Computer Control Guidelines*.

Generally, we have concluded that, considering the nature and size of the computer operations within the departments and agencies covered, the information system controls are reasonable. The level of control relating to information systems is improving throughout the provincial operations. Progress has been made in addressing the control deficiencies noted by this Office in prior years. Management and staff within departments and agencies are more aware of, and are committed to the need for, effective control of information systems.

However, certain minimum control standards are not being met at selected sites. In some of the minicomputer environments, the size of the information systems staff and/or technical limitations of the computer resources restricts the extent to which control techniques considered standard in larger computer operations can be implemented. We understand management's view that the ideal level of controls may not be practical.

As the use and dependence on both financial and non-financial information systems continue to increase, so will the significance of the specific control deficiencies identified. In future, to promote the appropriate level and consistency of controls at the information processing sites, the Province should consider developing information system control guidelines on a government-wide basis. Given the diversity of the resources and activities at the information processing sites, such guidelines would have to be defined fairly generally. Also, the decision on how and what procedures will be implemented to meet them should remain the responsibility of the entity management concerned.

The results of our audit work on computerized information system controls are discussed under the following headings.

Government-wide assignment
Department of Health
Update reviews
Reviews in process

Government-wide assignment

We completed a government-wide assignment to assess information system controls in the areas of password access security, and disaster recovery and contingency planning. Our objectives were to identify the existence and to assess the adequacy of controls in these two areas at the following departments and agencies.

Department of Community Services
Department of Consumer Affairs
Department of Finance
Department of Government Services
Department of Health
Department of Transportation and Communications

Camp Hill Hospital
Halifax Infirmary Hospital
Nova Scotia Hospital
Victoria General Hospital

For the Department of Government Services, which operates the Provincial Data Centre, the assignment was limited to the area of disaster recovery and contingency planning. Password access security at the Provincial Data Centre is being reviewed separately.

The findings and observations derived from our reviews of the individual information processing sites have been reported to the department or agency management concerned. Where appropriate we included recommendations for management's consideration. In a number of instances management has already initiated improvements as a result of our recommendations.

Overall, we concluded that, considering the nature and size of the computer operations at the various sites, the information system controls in the two areas are reasonable. However, for certain sites we identified specific instances where minimum control standards were not being met.

Password access security — In information system processing environments, password access security provides the primary techniques to control or restrict access to the information and the information systems. The purpose is to ensure that all access to information systems is authorized. There should be controls to ensure that access is in accordance with established policies and procedures. The effectiveness of these controls depends both on their technical or design characteristics, and the manner in which they are managed.

The following summarizes our findings and observations relating to the password access security area. Each item applies to three or more, but not necessarily all sites reviewed.

- The password security programs used at a number of sites control access to the system, but were limited in their ability to restrict users to only the approved system functions required for their job responsibilities.

- The approval, establishment and ongoing maintenance of access privileges were generally being controlled and documented too informally.

- Formal policies and guidelines for the confidentiality and control of passwords, as well as other computerized information, need to be documented and communicated to all staff concerned.

- Passwords were being shared by users at certain sites and, generally, passwords were not being changed at regular or frequent enough intervals.

Disaster recovery and contingency planning — Disaster recovery planning is the process of identifying procedures to be used to recover from a loss of computer equipment, software and/or data. Contingency planning is a process that focuses on how an organization will maintain operations while the disaster recovery plan is in effect. Both areas of planning are essential to the continued operation of critical information systems.

The basic control objectives of disaster recovery and contingency planning are to ensure that critical information systems and user activities can be recovered and resumed following interruptions to normal operations.

The following summarizes our findings and observations relating to the disaster recovery and contingency planning area. Again, each item applies to three or more, but not necessarily all sites reviewed.

- All sites visited have either developed or have plans to develop disaster recovery and contingency procedures.

- Generally, the assessment as to which systems are critical has been done informally by the information systems management, with insufficient user department involvement.

- Most existing plans have been tested to some extent, but little, if any, documentation was prepared.

- For the most part, while the existing disaster recovery and contingency plans cover the actual information processing operations, contingency procedures have not been developed for the users themselves, to be applied when the disaster recovery plans are in effect.

- In most instances, the storage locations of off site backup copies of documentation, data and program files are, in our view, too close to the information processing sites, and should be further away.

Department of Health

During the year we reviewed computer operations and systems at the Department of Health. The Department uses computerized systems to manage and control certain of their operations. Among its resources are several microcomputers, one minicomputer, and leased time on the mainframe computer at the Provincial Data Centre.

The objectives of this assignment were to review the general environment controls and the processing controls for the major systems at the Department.

There have been improvements in the level of control over the Department's computer operations and systems since our last review, which was completed in 1984. Based on the current review, and the results of our work relating to this Department in the government-wide assignment, we have concluded that their information system controls are reasonable.

In March 1985, the Department acquired a new computer which was installed and became operational shortly thereafter. In late 1986, due to unresolved system problems, the Department sold and replaced that computer with a secondhand minicomputer. Unfortunately the specific technical causes of these problems were not formally documented and reported on by the Department. We have recommended there should be a formal analysis and reporting of events and costs associated with significant systems problems, to minimize the impact or possibility of similar problems occurring in the future.

Update reviews

As part of our regular departmental and financial statement audits, we performed update reviews of the general environment controls at selected minicomputer sites. These reviews were in addition to the coverage in the government-wide assignment. The following summarizes our significant observations as a result of these reviews.

Division of duties — Because of the limited size of the information systems staff at most minicomputer sites, an adequate division or segregation of incompatible functions and duties is not always possible. The primary control available to compensate for this situation is an adequate review by independent management of the results of operations.

Maintenance of information systems — It is a standard control practice to segregate production (or "live") information systems from program development, maintenance and testing activities. Changes to programs should not be made directly to the production versions. Only authorized, tested and documented changes to information systems should be accepted into production. In our view, to do otherwise can compromise the integrity of information systems.

Because of resource limitations, certain minicomputer sites have not been able to maintain the appropriate segregation between production and development versions of programs. The extent to which changes, emergency or otherwise, are made directly to production versions of programs should be minimized and strictly controlled.

In all cases, management has indicated that additional procedures will be implemented to improve the level of administrative control over information systems maintenance activities.

Non-financial information systems — There are a number of operational management information systems in use or under development. While these are not financial accounting systems, certain of their outputs flow through to or impact upon financial systems. To date we have not evaluated the controls relating to such information systems. However, in our view, the level of control over critical non-financial information systems should be as high as, and possibly higher in some situations, than that of financial systems.

Reviews in process

Our office is engaged in the review of several major information systems within provincial operations. Included are some which are under development. This is being done to assess the impact these will have on our future audit coverage, and to determine whether minimum control standards have been or will be met.

ACF2 review — During 1987, we began an in-depth review of the password access security package installed at the Provincial Data Centre. Our objective in this audit assignment is to evaluate the installation and ongoing management of the Access Control Facility (ACF2) security package at the Data Centre.

ACF2 provides the primary password access security over the information systems and resources at the Data Centre. The package provides access control over both on-line and batch processing. There are more than 1000 authorized users with varying levels of access capabilities to the information and resources at the Data Centre.

The management and control of ACF2 is critical to maintaining an adequate level of access security and segregation of duties for the information systems processed at the Data Centre. As a result, our audit coverage of ACF2 will span a number of years.

To date we have met with management to gather up-to-date information on the installation of ACF2, as well as the administrative policies and procedures relating to the access security management function at the Data Centre.

Pension administration system — The Teachers' Pension Commission is acquiring a computerized system to record information on teachers' pensionable service, as well as pension contributions and payments. The system is scheduled to be introduced in August 1988.

On the basis of our review of the Commission's plans concerning implementation of the new pension administration system, we have communicated a number of preliminary observations and recommendations regarding system control matters. Commission management has indicated that our specific recommendations relating to the planning, testing, and implementation of the new pension administration system will be addressed.

Licensing and registration system — The Registry of Motor Vehicles is implementing a new on-line licensing and registration system, developed by a project team consisting of Registry, Government Services and external consulting staff. The Registry receives and records approximately $40 million of license and registration fees each year.

Because of the significance of the changes and the fact the system is on-line, it will have an impact on all existing procedures and controls. The new system will be operational in early 1988.

To date our efforts have been directed at gathering information on, and obtaining an understanding of, the operation and control of the new system. Meetings have been held with project team management, and our audit staff have experimented with the new system's on-line features.

Human resources management system (HRMS) — This new system, which will replace the existing personnel and payroll systems, is being implemented through Management Board. A project team, including representatives of the major user departments, has been established. The implementation of the HRMS is to be phased in over the next 12 to 18 months.

Our involvement to date has been limited to meetings with the project leader, and a review of system training material in order to gather preliminary information relating to the HRMS procedures and controls.

Concluding Remarks

Overall, we have concluded that information system controls are reasonable. Progress has been made towards correcting control deficiencies previously identified by this Office. However, there remain certain information system control areas where procedures could be further improved, including:

— password access security;

— disaster recovery and contingency planning; and

— maintenance of information systems.

With increasing use and dependence on information systems, management's challenge will be not only to maintain, but also to enhance the level of information system controls.

In order to sustain an appropriate level and consistency of controls, consideration should be given to the development of information system control guidelines on a government-wide basis.

Provincial Retirement Plans

Introduction

The Auditor General is responsible for auditing the Public Service Superannuation Fund and the Nova Scotia Teachers' Pension Fund annually. Each audit results in an audit opinion on the balance sheet and the statement of continuity of the Fund. Also included in these audits is a review of contributions received, investments and pension payments made.

The Funds' positions in relation to future pension commitments are not assessed by my Office. Actuaries qualified by the Canadian Institute of Actuaries conduct this assessment, and actuarial reviews of the two Funds are performed on a regular basis.

The actuarial valuation of a pension fund is a relatively complicated process. It involves mathematically forecasting future expectations for the pension plan, taking into consideration factors such as anticipated salary progression, estimates of inflation, the rate of return on invested funds, and probable rates of employee retirement, death or disability.

The actuary prepares an "actuarial balance sheet" which shows the present value of liabilities for pension benefits earned to that date for pensioners and for active employees still working, anticipated benefits payable for future pensioners, and expected refunds of contributions upon death or termination of current employees. From the total liabilities so calculated is deducted the current value of all investments in the fund at the date of the actuarial balance sheet. When these liabilities exceed the available assets, it represents an unfunded actuarial liability. This means the pension plan has commitments to be met in the future for which funding has not been provided.

It has been the practice of this Office to comment on the results of the actuarial valuations because the unfunded liabilities of both plans are relatively large. In my 1986 Annual Report, I discussed the most recent actuarial reports on the Teachers' Pension Fund at July 31, 1984 and the Public Service Superannuation Fund at June 30, 1984. Since then, there has been an actuarial review of the Public Service Superannuation Fund's position at March 31, 1987. There have been no further actuarial reviews of the Teachers' Pension Fund.

Public Service Superannuation Fund

The actuarial report on the Public Service Superannuation Fund at March 31, 1987 contains the following principal conclusions.

- The unfunded liability at March 31, 1987 is $240.6 million.

- This amount compares favourably with the unfunded liability reported in the last actuarial review of $252.5 million. The decrease of $11.9 million in the unfunded liability is attributable to better investment returns, and lower salary increases than previously assumed.

- The unfunded liability of $240.6 million at March 31, 1987 was 24% of the present value of pension liabilities. This is a significant improvement from the last actuarial review at June 30, 1984, when the unfunded liability represented 34% of pension liabilities. At June 30, 1981, the relevant percentage was 45%.

- Contributions to the Fund exceed the costs of benefits being earned by 1.33% of covered pay, a decrease from 1.83% at June 30, 1984. This current service surplus has been reduced due to the costs of improvements in plan benefits. This excess is available to reduce the unfunded liability.

The unfunded pension liabilities of the Public Service Superannuation Fund have decreased for two principal reasons. The actual results of the Fund's investment returns and salary levels have been more favourable than projected in prior actuarial reviews. In addition, the excess of contributions over current service costs has also contributed to the decrease in the unfunded liability.

The actuaries report that, *"In our considered opinion, . . . there is a reasonable probability that the present contributions will be sufficient over the long term to provide for the present benefits."*

Teachers' Pension Fund

In my 1986 Annual Report, I commented upon the October 1986 actuarial report on the valuation of the Teachers' Pension Fund at July 31, 1984. The next actuarial review will be in 1989, in accordance with the Teachers' Pension Act which requires such a review at five-year intervals.

The following are the principal matters relating to this Fund.

- The unfunded liability of the Teachers' Pension Fund at June 30, 1984 was $670.5 million. The previous unfunded liability, calculated at June 30, 1979 was $457.9 million. The unfunded liability, expressed as a percentage of the present value of pension liabilities, was 59.5%. This was a favourable decrease from 67.4% in 1979, but considerably higher than the 24% of the Public Service Superannuation Fund.

- Contributions to the Fund are not sufficient to meet the benefits currently being earned. The actuarial study indicated that an increase in total contributions of 7% was needed in order to pay for the benefits being earned.

- I recommended that actuarial valuations should be performed more frequently than every five years. A three-year interval would appear to be more appropriate.

- I stated that in my opinion, the interval between the actuarial balance sheet date and the completion of the actuary's report is far too long. It was 27 months in this case.

In August 1987, contribution rates were increased, so that the cost of pension benefits currently being earned are now provided for by the combined contributions to the plan by teachers and government. While the unfunded liability will continue to increase, its rate of increase should be less, now that current service costs are covered by contributions.

The interval between the actuarial balance sheet date and the completion of the actuary's report has been inordinately long due to an inappropriate pension accounting and information system. The Commission is implementing a computerized information system which, in addition to other improvements, should provide for prompt and more accurate accumulation of data needed for the next actuarial review. Once the system is operational in August 1988, the interval between the actuarial balance sheet date and the release of the actuary's report should be reduced.

As noted in the introduction, the actuarial valuation is based on various assumptions. One of the factors that must be estimated is the mortality rate for members of the plan. The actuary decides upon the mortality estimates used. The 1984 actuarial study used the "a-1949 Annuitants Mortality Table". However, the actuary notes that there is evidence of improvements in mortality and serious consideration should be given to using tables that reflect those improvements in the next valuation.

In a letter subsequent to his July 1984 report, the actuary states that the unfunded liability of the Teachers' Pension Fund would have increased by $78.9 million to $749 million if the more current estimates of mortality contained in the 1983 Group Annuity Table had been used.

Concluding Remarks

The unfunded liability of the Public Service Superannuation Fund has decreased in absolute terms, as well as in proportion to pension liabilities. The contributions to the Fund continue to exceed the current service cost. This improvement in the unfunded liability is encouraging.

The level of the unfunded liability in the Teachers' Pension Fund is still significant, and a matter of some concern. However, current contributions are now sufficient to cover the cost of current benefits being earned.

Reservations Of Opinion

Introduction

The provisions of Section 7 (b) and (d) of the Auditor General Act assign to me the responsibility for ascertaining whether in my opinion:

— all revenues to which the Province is entitled have been received, and that there are adequate systems and procedures to administer the revenue collecting function; and

— essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

To fulfill this responsibility, it is necessary to review and evaluate the financial and accounting controls in the departments and agencies of Government. If certain controls are found inadequate, these inadequacies must be considered in rendering an opinion.

In addition, I have an audit responsibility for the annual financial statements of various crown corporations, boards, commissions and funds. These total 34 audits, listed in Appendix III of this Report. I describe in my Annual Report the details of any audit qualifications concerning these audits, or situations in which it was not possible to render an audit opinion, referred to as a denial of opinion.

No situations were encountered in the departmental and agency audits performed this year where the systems and procedures were deficient to the extent that reporting of the situation was required under Section 7 (b) and (d).

There were, however, two entities for which I am the appointed auditor, where I was unable to express an unqualified audit opinion on the financial statements for the March 31, 1987 fiscal year. These were the Public Trustee, and the Victoria General Hospital, both discussed at further length in the following paragraphs.

Public Trustee

As was the case last year, I was unable to express an unqualified audit opinion on the financial statements of the Public Trustee at March

31, 1987. I stated in my qualified audit report *". . . there is no system to record trust assets that are not in the physical custody of the Public Trustee. As a consequence, I am unable to satisfy myself that all trust assets and liabilities of the Public Trustee had been recorded."*

The condition which gives rise to this qualification is an inadequate system to account for assets, other than cash and securities, under the administration of the Public Trustee. These include assets which are not in the physical possession of the Public Trustee but for which he has administrative responsibility. There is no system which records these assets at acquisition, and reflects all changes in their status, in a manner which would provide adequate control over their location, disposition and use.

On the basis of our 1986 audit, we issued on October 14, 1986 a special report to management detailing the serious deficiencies we had encountered, and indicated areas for corrective action and the need for a more experienced staffing of the accounting function. This situation was described in detail in my 1986 Annual Report.

The Department of the Attorney General opted for a review of the accounting situation at the Office of the Public Trustee by their own staff. This review was completed and reported on March 2, 1987. It not only confirmed our findings, but indicated the situation had worsened since our audit.

Unfortunately, it was not until May 1987 that a qualified person was hired to direct the accounting function. Since that time, a number of procedures have been implemented to improve their accounting systems.

However, in accordance with the requirements of Section 7(d) of the Auditor General Act, I have to report that in addition to the system inadequacies noted above, there were significant weaknesses in the maintaining of the essential accounting records for this operation for the year ended March 31, 1987. These related to such matters as:

— the failure to properly reconcile general ledger control figures to subsidiary ledger balances for estate and trust liabilities;

— numerous instances of ledger postings to subsidiary ledgers, which were not reflected in accounting journals or the general ledger;

— journal entries not posted; and

— postings not made on a timely basis.

All of the above, in our view, can be attributed to the lack of accounting expertise of the staff, as it existed at the time of our audit, in the Office of the Public Trustee. It is indeed unfortunate that the Department's inability to deal with these problems on a more timely basis has again required a serious qualification to the financial statements. Moreover, the accounting for and control over assets under administration by this office has not been what we would consider appropriate and responsible.

The Public Trustee has under his administration a varied and complex mix of assets of about $7 million. To fulfill the legislated and professional responsibilities associated with the administration of these assets, it is essential that the staffing be sufficient, and the systems and controls be adequate.

Victoria General Hospital

Introduction

This year, for the first time, it was not possible to express an audit opinion on the hospital's financial statements for the year, submitted as part of the Annual Return of Health Care Facilities — Hospitals — Part II.

The financial statements which an auditor is called to express an independent audit opinion on are, in fact, the statements of the entity themselves. As part of the documentation supporting the conduct of all audits, a "management representation letter" is prepared by management of the entity. This letter expresses their opinion upon a variety of significant matters impacting on both the financial statements and the conduct of the audit. This year, management of the Hospital in their management representation letter stated that:

"As members of management, we do not believe that the hospital has a system of internal control adequate to permit the preparation of accurate financial statements with respect to timeliness and classification of information. Significant intervention is required to substitute for inadequate accounting controls and to ensure conformity with generally accepted hospital accounting principles."

Accordingly, with this type of reservation expressed by management, it was not possible for me to provide an opinion on the financial statements. It is unfortunate that the accounting and control systems of the Hospital have deteriorated to the extent that such a statement was necessary. However, it should be pointed out that the various deficiencies in controls and accounting systems are ones which this Office has been reporting to the Hospital since 1979, and during the intervening years, progress in remedying a variety of deficiencies and weaknesses has not been satisfactory.

The administration of the accounting function at the Victoria General Hospital has long been a matter of concern to my Office. The relevant experience and professional accounting qualifications of the Victoria General accounting staff is less than that of the other three hospitals for whom we have the audit responsibility, namely Camp Hill Hospital, the Halifax Infirmary and the Nova Scotia Hospital. As it is the largest of the four hospitals, one would expect it to have the best-staffed accounting group. Unfortunately, this is not the case.

We contend that the operation of the accounting and control function has not received the degree of executive priority that it should have. One prime example of this is the lack of an effective internal audit function, a matter our Office reviewed and reported upon in some depth to the Executive and Board of the Hospital in August 1981, but which was not acted upon until recent months.

However, one significant factor must be acknowledged with respect to the accounting function at the Victoria General Hospital. The Hospital is dependent upon the Department of Finance for most of its basic accounting information. This has posed some problems with respect to the classification, timeliness and usefulness of certain information generated by the Department of Finance for the Hospital.

In December 1987, the Department of Health commissioned a special study by a national firm of management consultants in recognition of continuing difficulties with respect to control over budget, the need for accurate interim financial operating data, and other related problems concerning the operation of the accounting, financial, and statistical reporting systems in place at the Hospital. This study will review a variety of matters pertaining to these systems, relevant policies and practices, and relationships with various government departments, in order to recommend a suitable accounting and control structure for

the Hospital. We strongly endorse this study and trust that its recommendations will provide the basis for a more effective financial administration of this Hospital.

This article describes significant audit observations and recommendations arising from our March 31, 1987 year-end audit of the Hospital, and also the results of a special review of the Pharmacy inventory, conducted earlier this year. The purpose of this review was to determine the causes of major variances between actual quantities of stock on hand, and those reflected in the perpetual inventory records for the Pharmacy Stores. Our discussion of these reports is presented under the following classifications: Pharmacy Inventory; Other Inventories; Other Matters.

Pharmacy Inventory

There have been major differences between physical counts and perpetual inventory records in the pharmacy area during the past five years. Management has been aware of the problem, and instituted semi-annual physical counts and conducted a paper flow study in July 1986. However, these efforts have been largely unsuccessful in reducing the magnitude of these differences.

At March 31, 1987 the net difference in Pharmacy Stores was $670,000, and the Hospital requested our Office to conduct a special examination in an effort to determine the causes. Our examination revealed accounting and clerical errors, and systems weaknesses. These accounted for $402,000 of the difference.

Hospital management has been aware for several years that the variances between accounting record inventory balances and actual stock on hand were unacceptable, and also was aware of some of the causes. Yet there has been a failure to improve the situation.

The principal cause of this failure appears to be that no one department has been assigned full responsibility for the integrity of the perpetual inventory system. In fact, responsibilities are distributed among three distinct groups within the Hospital, and until such time as a single responsibility for inventory is assigned, the Hospital cannot expect to deal decisively with problems in inventory management.

In addition, we identified other shortcomings, the more significant are as follows.

- Access to certain inventories is available to more than one group, so that accountability for security cannot be assigned.
- Investigations of inventory discrepancies are not made promptly, by persons independent of those responsible for the inventories.
- The accounting systems for certain controlled substances are cumbersome and inadequate.
- The processing of documentation by the computer system is unduly tardy, and certain basic control checks are not being made.
- There are deficiencies in the physical storage facilities, which is a function of limited space in the Hospital.

Other Inventories

After completing our special audit assignment concerning the review of the Pharmacy Inventory, we conducted our regular year-end audit. This audit included a review of the accuracy and valuation of the inventory on hand at March 31, 1987, which amounted to nearly $3 million.

In the conduct of our inventory audit tests, we encountered an unreasonably high error rate. This provided further evidence of the weaknesses in the Hospital's inventory management systems. To assist the Hospital in addressing these deficiencies, we presented a series of observations and recommendations. Certain of these are listed below.

- Inventory controls relating to storage, access and security arrangements are generally weak, due to physical space limitations, and the need to have numerous storage areas and receiving locations.
- Housekeeping in the inventory areas was found to be adequate.
- Controls over the completeness and accuracy of source documents are adequate.

- Reconciliations of general ledger control accounts to subsidiary accounting records are not being performed frequently enough.

- Differences between general ledger control balances and perpetual inventory amounts are often large. These differences are seldom properly investigated, as a basis for appropriate corrective action.

- The computerized perpetual inventory system in use at the Hospital was developed in the late 1970's. In relation to present technological standards, it must be considered obsolete.

On the basis of these observations, we have presented several recommendations to the Hospital. We hope that action upon these, along with whatever recommendations may emanate from the management consultants' study, will serve to improve what must be considered a generally unsatisfactory condition in the control over inventories.

Other Matters

The provisions of Section 7 (b) of the Auditor General Act require me to report any instances where the systems and procedures used to administer the revenue collection function are inadequate. In accordance with this requirement, we have reported for the fiscal years 1983 to 1986 inclusive that the controls over the laboratory and referred-in revenues were deficient. However, this deficiency was not material enough to result in a qualification to our audit opinion on the Hospital's financial statements. Modifications to the computerized systems used for these revenues were made during the current fiscal year, and as a result, we did not have to report any deficiency relating to this matter for the March 31, 1987 year.

Disclosure of the operating results of the Victoria General Hospital was improved significantly in the March 31, 1986 Public Accounts of the Province. A statement of revenues and expenditures was included which provided more detail than had been disclosed in prior years. A similar presentation will be found in the March 31, 1987 Public Accounts. However, we recommend that a complete set of financial statements should be prepared and included in the Public Accounts, similar to those published for both Camp Hill Hospital and the Nova Scotia Hospital. It is hoped that this recommendation will be effective for the March 31, 1988 fiscal year.

Conclusion

The results of our audits at the Victoria General Hospital warrant reiteration of three points.

- Certain accounting routines, principally for inventory, have been unsatisfactory for several years. This condition deteriorated significantly in the current fiscal year to the extent that the Hospital's management issued a qualified management representation letter. Accordingly, I was required to deny an audit opinion on the year's results.

- There does not appear to have been, to date, enough priority devoted to critical staffing and systems requirements in the accounting area.

- The Board and management of the Victoria General Hospital, and also those government departments with responsibilities associated with its operation, must provide the direction and resources essential to resolving the Hospital's accounting and control problems. The study assigned to the management consulting firm should serve to provide meaningful assessment of the underlying problems, and recommendations for their resolution.

Department of Transportation Equipment Parts Inventories

Introduction

The Department of Transportation maintains a large equipment parts inventory at its Miller Lake site, as well as smaller inventories at the divisional offices throughout the province. At March 31, 1987, the total value of this inventory was approximately $8.7 million.

This year we performed an audit, the objective of which was to review and evaluate in some depth the Department's policies and practices relating to the management of its equipment parts inventory. In prior years' audits, we noted what appeared, in our view, to be excessive

inventory levels. However, we had not had the opportunity to examine the systems in sufficient depth to determine the possible reasons for this situation.

A questionnaire was designed to tabulate management's practices regarding purchasing, fleet management, and action on slow-moving stock. This questionnaire was completed for the Miller Lake operation and two of the divisional offices. In addition, we selected 80 parts from the 3 locations for analysis of use in relation to inventory turnover. We also reviewed the non-parts inventories, including signs, gravel, and building materials, which totalled an additional $6.4 million.

Following are the major observations derived from this audit assignment.

- 30% of the items tested appear to be overstocked.
- The principal reasons for overstocking were a lack of formal policies and guidelines for inventory management, and a lack of accountability to a central authority for inventory management.
- The non-parts inventories appears higher than necessary.
- Although the computerized inventory system is adequate to account for and safeguard stock, the system should provide more timely and accurate information for inventory management purposes.

Audit Observations

The results of the audit are elaborated upon under the following headings:

Management policies
Management practices
Management accountability
Computer systems
Non-parts inventories

Management policies — The Department employs an appropriate system for its inventory management. This system involves the calculation and use of minimum reorder points, economic order

quantities, and safety stocks. All of these are reflected in the data base for the computerized inventory control system, and support the ordering process.

Although, as already stated, the system itself is an appropriate one, our audit revealed certain fundamental deficiencies, such as:

— no departmental guidelines have been established for the setting of minimum reorder points;

— the Department has not defined which inventory stocks are critical to its operations, and therefore require a safety stock; and

— guidelines have not been established for the desired turnover rates for stock.

Although there are no written policies or guidelines in effect, unwritten practices are followed in the divisional offices and at Miller Lake. However, inconsistencies in these practices have contributed to what we consider to be higher than necessary levels for both minimum reorder points (MRP) and economic order quantities (EOQ). Of the 80 items reviewed, in 15 cases the MRP appeared unduly high, and in 14 instances the EOQ seemed higher than necessary.

Accordingly, we have recommended that the Department establish policies relating to the calculation of MRP's, the definition of parts which are critical to operations and require safety stocks, and appropriate levels of safety stock. In addition, we have recommended the establishment of guidelines for the desired turnover rates for various classes of stock, and necessary adjustments to economic order quantities.

Management practices — Miller Lake and the divisional offices often stock identical parts for their equipment requirements. Each office is responsible for maintaining its own stock levels, and when divisional offices place an order, they are not required to determine if the part is available at another location.

Our audit revealed instances where orders were placed, yet other locations had available either rebuilt or interchangeable parts. We have suggested to the Department that they initiate practices which will require those ordering parts to first review availability at other locations.

Also, there were cases where snow plow and grader blades inventories at certain locations appeared to be higher than was needed. A recommendation has been made to scrutinize more carefully the usage projections of snow plow and grader blades before orders are placed.

Management accountability — The Department has a decentralized management policy, whereby division offices have full responsibility for inventory matters. This accountability is assigned to stock clerks and is not, in our opinion, the appropriate level of responsibility. We believe that a more formalized and higher level of accountability at the division offices for inventory management should be introduced.

In addition, we noted that stock ordered by a division office and subsequently found to exceed requirements can be returned to Miller Lake without penalty. Any item for which there has been no issues in the past three years will be classified as slow-moving. It is our contention that the identification of stock as slow-moving should be revised to reflect a period of one or two years, rather than the three-year criteria now being used.

A priority of the Department is to maximize service to the public, by minimizing downtime on equipment. In order to eliminate all possibility of an out-of-stock situation, unduly large supplies of stock will often be carried. We noted several instances of this in our review.

Shop supervisors and/or division engineers should have overall responsibility for inventory management, and an evaluation of their performance should include reference to inventory matters such as:

— out-of-stock situations within the review period;

— insufficient or excessive inventory levels; and

— the amount of slow-moving inventory on hand.

Computer systems — A computerized perpetual inventory system, for inventory parts at all locations, is maintained at the Department's office in Halifax. Enquiry terminals are located at Miller Lake, but not at any of the divisional offices, which have to rely on hardcopy printouts for their inventory management information, often taking three weeks to be received. In addition, the enquiry capability at Miller Lake does not provide access to parts' usage histories.

As a result of this situation, it is often difficult for division offices to obtain readily the information they require for sound inventory management. We suggest that the Department review carefully the information needs of the division offices, with a view to providing them with an enquiry capability that will permit them to obtain desired inventory information.

Non-parts inventories — Inventories of maintenance materials, gravel and signs are kept at various divisional locations throughout the Province. There are 23 separate locations for these inventories, and they total in excess of $6 million.

We reviewed inventory levels at 15 of the 23 locations, and without attempting to determine the precise reasons for the levels of certain items, we have suggested to the Department that there may be opportunities for inventory reductions and cost savings in this area.

We have recommended to the Department that they monitor non-parts inventories on a continuing basis, determine the reasons for high inventory levels and low turnovers, and initiate appropriate corrective action to reduce excess inventories.

Concluding Remarks

The levels of both parts and non-parts inventories are higher than they need to be. A number of factors have contributed to this situation. To remedy it, we have recommended to the Department that they:

— develop inventory management policies and quantitative guidelines for the various aspects of the inventory system;

— reconsider their accountability assignments for inventory management responsibilities; and

— attempt to upgrade their computer information system capabilities to provide more timely and useful data.

The Department has responded to our audit report by informing us that they concur with our major findings and recommendations, and that implementation will be actively pursued as time permits.

Venture Corporations Board

Introduction

The Venture Corporations Board was established to administer the Venture Corporations Act, and is empowered to recommend to the Minister of Development the granting of unsecured loans to private sector venture capital corporations. The Board provides an unsecured loan to the venture corporation, matching its equity, and the total of these funds is invested in a small business company known as an eligible investment.

The Board obtains information on the activities of the venture capital corporations under Sections 15 and 16 of the Venture Corporations Act. These sections require the annual submission of information returns and financial statements. This information is necessary to assess whether the activities of the corporations comply with the Act, and to evaluate the potential for recovery of loans to these corporations.

Audit Observations

At the time of our most recent audit, 42 venture corporations were required to submit returns and financial statements. Twenty-seven of the venture corporations did not have current financial statements on file, and twenty-nine had not submitted the required information returns within the prescribed time limits.

In April 1987, we issued a report to the Board expressing our concerns regarding the adequacy of review procedures for compliance by the venture capital corporations with the Venture Corporations Act. Since then, the Board has initiated a formal review process regarding the status of its outstanding loans. The process involves an examination, conducted at the Board of Directors level, of the financial statements of the venture corporation for adherance to significant provisions of the Act.

In each of the past three years, I have discussed the activities of the Venture Corporations Board. One of the conclusions expressed in last year's Annual Report bears repeating, in view of the findings from our most recent audit.

> *"The venture capital corporations, and their investments, should be subject to regular monitoring to ensure the funds are being used for the purpose for which they were advanced. The timely submission and review of annual information returns and financial statements is an essential part of this process."*

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STATUS PRIOR YEARS' OBSERVATIONS AND RECOMMENDATIONS

Introduction

This Annual Report continues the practice I commenced in 1986 of tabulating the status of all previously reported significant recommendations and observations. Last year this list included items from five previous Reports, 1981 to 1985 inclusive.

This year's tabulation includes all those from the 1986 article where the comment still applies, the recommendation has not been implemented, or the status is to be determined at the time of a future audit. Also included are items mentioned in last year's article which were resolved during the current year. Added to the tabulation this year are matters arising from articles included in my 1986 Annual Report. Where pertinent, reference is made to articles in this year's Report.

There are 47 topics noted and the following summarizes their current status.

Comment still applies, or recommendation not implemented	25
Recommendation partly or substantially implemented	8
Recommendation fully implemented, or condition no longer applies	7
Status to be ascertained at a subsequent audit	7
	47

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1987 Annual Report	Reference Year	Page
Estimates			
• Need to realistically anticipate all major expenditure requirements.	Comment still applies in certain cases.	1986 1985 1984 1983 1982	50-51 25-26 74 29 37-38
• Use of Result Indicators encouraged, but development and use inconsistently applied in departments.	Status currently under review by our Office, to be completed next year.	1987 1985 1984	111-113 26 30
Public Accounts			
• Use of "Forecast" data in the Statement of Current Revenue and Expenditure, considered irrelevant and unnecessary.	Comment still applies.	1986 1985 1984	28 28 32
• Certain advances under the Universities Assistance Act, which do not represent realizable recoveries from outside parties, are included on the Statement of Financial Position, contrary to prudent accounting practice.	Comment still applies.	1986 1985	28 29

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1987 Annual Report	Reference Year	Page
Auditor General Act			
• Recommended amendments to the Act to provide an appropriate degree of independence, particularly regarding appointment of the Auditor General and administration of the Office.	Not yet implemented, but revised legislation under consideration for 1988.	1987 1986 1985 1984	30 29 31 36-37
• Recommended extensions of the scope of the audit mandate for the Auditor General, especially for the audit of government grants and other assistance.	Not yet implemented, but revised legislation under consideration for 1988.	1987 1986 1985 1984	31 29-30 32-33 37-39
• Other recommended amendments to the Act for administrative clarification and improvement.	Not yet implemented, but revised legislation under consideration for 1988.	1987 1986 1985	30-31 29 33-34
Public Accounts Committee			
• Recommendation for various improvements in operation and structure of the Committee, relating principally to:	Partly implemented.		

— formal enunciation of Committee's role and responsibilities;	Not yet implemented.	1987 42 1986 30
— use of agendas and background material;	Not yet implemented.	1985 35 1984 41-42
— submission of a substantive annual report;	Implemented in 1987.	1983 46 1981 15
— provision for follow-up to Committee recommendations; and	Not yet implemented.	
— scheduling of Committee meetings when House not in session.	Implemented in 1987.	

Financial Topics

• The need to reexamine existing government programs to evaluate their affordability and also their efficiency and effectiveness.	The strategic planning exercise, initiated in 1986 is now in a second phase of evaluating all Government programs. Government initiated a three-year program of deficit reduction in 1987.	1987 57 1986 49-50 1985 43 1984 81
• Additional appropriations are too frequently requested by departments, and approved by Executive Council after the end of the fiscal year, often six to eight months later.	Comment still applies, but significant improvement in 1987 (see pages 59-60).	1986 53 1985 44,46 1984 74 1983 29 1982 80 1981 58

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1987 Annual Report	Reference Year	Page
Crown Agencies and Corporations			
• Recommendation that legislation is required for crown agencies and corporations to enhance their accountability by providing for consistent reporting and disclosure requirements, a definition of status, and related matters.	Not yet implemented.	1987 1986 1985 1982	67 56-57 49-50 62
• Nova Scotia Liquor Commission — recommendations concerning inventory management and space utilization, and also other accounting control and management matters.	Recommendations substantially implemented (see page 67).	1984	71
Departmental and Other Audit Observations			
Annual Reports of Departments			
• Deficiencies in reporting, content and timeliness by several departments, not in compliance with Management Board requirements.	Status to be determined at time of next review of this area.	1983	36

Department of Attorney General			
• Sheriffs' offices — deficiencies in cash receipt and disbursement practices, relating to cheque signing and cash deposits.	To be evaluated at a future audit.	1986	71-73
Cash Losses			
• Need for revised Management Manual procedures and responsibilities for dealing with actual or suspected losses.	Implemented December 1987, (see page 130).	1986 1985 1984 1982 1981	112 80 49 19,22 22-23
Cash Management			
• Recommendations arising from a government-wide study relating to:		1987 1986	79-81 74-86
— management and forecasting of cash flow — (need for formal policies, enhanced staffing and information systems) accelerated depositing and claiming for cost recoveries;	More formalized policies being developed in 1987. Practices to accelerate deposits introduced.		
— banking arrangements — (more formalized, and regularly reviewed arrangements with bankers, and costs of services and benefits); and	Better cost information to be developed.		
— payment of accounts — (better control over early payments).	Improved controls initiated in 1987.		

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1987 Annual Report	Reference Year	Page
Computer Related Audits			
• Insufficient attention to security and control matters at many installations throughout government.	Although marked improvement in awareness and controls, this is still a continuing concern.	1986 1984 1983	114-118 53 34-35
• Department of Transportation — inadequate segregation of duties in its computer installation.	Comment still applies.	1985	95
Department of Education			
• Lack of procedures by the Department to ensure there is adequate fire insurance on school buildings and contents.	No procedure yet implemented. Department advises action planned in 1988.	1983	38-39
Department of Environment			
• Formal policies and guidelines lacking for Environmental Improvement Project grants.	Department advises certain steps undertaken. To be evaluated at next audit.	1984	67

Internal Audit

• Recommendations arising from a government-wide study including:			
— requirement for policy statement;	Issued January 1988.	1987	98-99
		1986	94
— need for full-time internal auditors in four departments;	Either implemented or approval being sought.	1987	100
		1986	93
— need for expanded audit scope into economy and efficiency areas;	In most internal audit mandates, but not activated.	1987	100
		1986	94-95
— need for planning and risk analysis;	Only in two departments to date.	1987	100
		1986	95
— need for central internal audit resource for smaller departments; and	Plans for Department of Finance to provide this resource.	1987	100-101
		1986	95
— need for staffing, training and performance enhancements.	Only minimal progress in these areas.	1987	99-100
		1986	96

Department of Finance

• Statement of Travelling Expenses Form, needs revision to provide more detail and faciliate approval and audit.	New form drafted, not yet introduced.	1986	101-102

Portland Estates Limited

• Shortcomings noted in the administration of the loan to Portland Estates.	Comment still applies.	1985	86-89

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1987 Annual Report	Reference Year	Page
Provincial Retirement Plans			
• Teachers' Pension Fund		1987	141-142
		1986	120-121
— large and growing unfunded liability;	Comment still applies.	1985	93- 94
— deficiency in current contributions;	Remedied in 1987.	1983	44
— need for actuarial reviews more frequently than every five years.	Comment still applies.	1982	67-68
		1981	48-49
Public Trustee			
• Significant inadequacies in systems accounting for and controlling assets other than cash and securities.	Enhanced staffing effective May 1987, and systems improvements commenced.	1987 1986	144-145 124
Government Purchasing Agency			
• The Government Purchases Act should be amended to alter the Agency's reporting requirement to the Auditor General.	Under consideration by Government.	1985	63-64

Venture Corporations Board

• Shortcomings regarding information requirements and accounting for investments under the Venture Corporations Act.	Comment still applies.	1987 1986 1985	155-156 126-129 97
• Lack of compliance by Venture Corporations with information filing requirements of the Act.	Comment still applies.	1987 1986 1985	155 128 96

Victoria General Hospital

• Recommended enhancement of internal audit activity into operational areas.	Comment still applies, this function inactive in 1985 and 1986, reactivated in mid-1987.	1981	38-39
• Significant weaknesses in financial management relating to:			
— hospital's financial information system;	Improvements in process.	1981	42
— lack of a management service function which goes beyond data processing responsibilities; and	To be evaluated at a subsequent audit.	1981	40
— administration of the budget process.	To be evaluated at a subsequent audit.	1981	41

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1987 Annual Report	Reference Year	Page
• Deficiencies in controls over laboratory revenues.	Remedied in 1987, (see page 149)	1986 1985 1984 1983	125 96 25 25
Vocational and Technical Training Schools			
• Recommendations arising from an in-depth special audit review relating to:	To be evaluated at a subsequent audit.		
— management control systems;		1986	103-105
— curriculum development and evaluation;		1986	105-106
— human resources management; and		1986	106-107
— facilities and materiel management.		1986	107

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OFFICE
OF
THE AUDITOR GENERAL

Office of the Auditor General

Introductory Comments

Both my 1985 and 1986 Annual Reports included comments on the need for an increase in staff for this Office. Throughout most of 1985 and the early months of 1986, we operated significantly below approved complement because of delays in filling staff vacancies. As I stated in last year's Report, concerns we previously expressed about the adequacy of staffing were to a large extent alleviated by May 1, 1986.

Unfortunately, during calendar year 1987, certain factors have combined to inhibit somewhat our ability to perform all of the audit assignments we had planned for the year. Four principal factors contributed to this situation. These were:

— a lack of preparation by accounting staff in certain audit entities, which resulted in our having to spend considerably more time than planned on these audits (see article page 126);

— a need to devote more audit time to certain crown corporation and special audit assignments than we had originally anticipated, due to the size and complexity of some of these assignments;

— a need to devote more time and attention to training for and the conduct of computer related audit assignments, due to the increasing size and complexity of computer related accounting operations throughout government; and

— higher than normal time losses due to staff illness, and obtaining replacements for resigned staff members.

In 1986, our student training program was switched from that of the Institute of Chartered Accountants to the Society of Management Accountants. This was done because of the increasing amount of time students were having to devote to professional accounting courses during the busiest months of our audit year, and our recent experiences retaining newly-qualified chartered accountants. This was a radical departure from a training program that had spanned many decades. We felt the decision was necessary under the circumstances, and, incidentally, a departure which certain other provincial Legislative Offices in Canada have at least partially implemented.

To assess whether there might be further opportunities for increasing the efficiency with which we conduct our audit assignments, we engaged a national firm of Chartered Accountants to review the audit processes and practices we employ in the conduct of our financial statement audits. A report on this study was received in January 1988, and has identified opportunities for improving both the quality and amount of time spent on these audits. During 1988 we also plan to review the manner in which we conduct our department audits and special audit assignments. These studies will be undertaken by our own staff, possibly with some assistance and reference to practices of other provincial Legislative Audit Offices.

However, to provide further alleviation of the difficulties we are experiencing in meeting our planned and required audit assignments, we have requested permission of Management Board, for the 1988-89 fiscal year, to increase our staff by one qualified professional accountant. We trust that this request will be favourably considered by the Board.

Staff Complement

The approved staff complement for the 1987-88 fiscal year was 32, and at the date of release of this Report comprised:

Senior Staff		5
Auditor General, Deputy and Assistant Auditor General, and two Directors		
Audit Teams and Support Staff		23
Audit Managers and Supervisors	10	
Senior Audit Officers with Professional Qualifications	3	
Audit Officers — includes Students and Technicians	10	
Administrative Support Staff		4
		32

During the past year two professionally qualified staff who had been on secondment to crown agencies decided to accept permanent appointments to these agencies. One went with the Workers' Compensation Board, and the other with the Land Registration and Information Service of the Council of Maritime Premiers. In both cases,

we were pleased to be in a position to provide these opportunities to our staff members, and assist the agencies concerned in staffing their requirements. In addition, during the past year, two members of our audit staff transferred to other departments of government, namely the Departments of Education and Health. I contend that in an office such as ours, a degree of experience in government accounting, administration and financial matters can be obtained that is difficult to achieve within most departments of government. Accordingly, I encourage this type of transfer, and believe that even greater use could be made of it.

Financial

The expenditures and recoveries of the Office for the year ended March 31, 1987, as compared with the approved estimate, and the previous year's budget are scheduled below. The net expenditures for 1986-87 are below the approved estimates, principally because of lower salary expenses attributable to delays in filling staff positions and a recovery of a previously provided for doubtful account. This is offset by an increase in other expenditures, mainly the cost of renovations associated with a move of our office premises, which had not been included in the estimates for the year.

	Estimate 1986-87	**Actual 1986-87**	**Actual 1985-86**
Expenditures			
Salaries	$1,180,600	$1,155,888	$1,119,499
Other	168,400	198,345	175,893
	1,349,000	1,354,233	1,295,392
Recoveries	123,500	154,900	87,100
Net Expenditures	$1,225,500	$1,199,333	$1,208,292

Professional Development and Affiliations

There is an ever-increasing demand in a professional audit office such as ours to be competent in many areas directly related to the performance of our legislated and other audit responsibilities. These include developments in audit and accounting standards and techniques; contemporary EDP literacy demands, which have both audit and administrative ramifications; and an ability to perform assignments

which go beyond the traditional financial statement opinion and compliance audits. In addition, we are striving to improve the efficiency and productivity of the performance of our audits.

As a consequence of these demands, we undertake a fair degree of training and development at all staff levels. We have recently embarked upon a reexamination of our audit training programs to ensure that their relevance and timeliness are best suited to our needs.

During the past year, a number of our audit staff took courses relating to the use and audit of computer resources and systems. These included self-study tutorial courses; courses presented by our own staff; microcomputer courses at local universities; and seminars and conferences, sponsored by the Canadian Institute of Chartered Accountants and the EDP Auditors Association.

All audit staff attended a two-day seminar on Fraud Awareness in April 1987, conducted by the Commercial Crime Division of the R.C.M.P. A course in Report Writing was presented to all staff in June of 1987. Individual staff members attended Professional Development courses sponsored by the Institute of Chartered Accountants of Nova Scotia, and various management courses of the Civil Service Commission and others.

The 15th Annual Meeting of the Canadian Conference of Legislative Auditors was held in Quebec City in July of 1987. This conference is held in conjunction with a meeting of the Provincial and Federal Public Accounts Committees, and a joint session was held with both groups in attendance. Three members of our office attended this conference, and formal presentations were made by two of them. In July 1988, Nova Scotia will host this annual conference.

The Conference of Legislative Auditors continues to provide worthwhile presentations on topics relevant to our audit responsibilities, and also furnishes an opportunity to exchange information on various audit and administrative matters relating to the operation of our offices.

In addition, the Atlantic Provinces Legislative Auditors meet annually; in 1987 a two-day meeting of this group was held in St. John's, Newfoundland. Each of the four Auditors General, together with the Deputies and Assistant Auditors General, discussed common auditing and administrative matters. These sessions provide the opportunity to review items of interest and concern at a different level than the national

meetings afford, and also facilitate a degree of cooperation and interchange in various areas.

We maintain a membership in the Canadian Comprehensive Auditing Foundation. Three members of the Office attended the annual conference held in Ottawa in December 1987. These conferences continue to present a range of sessions on audit experiences and research initiatives, most of which are quite relevant to our audit responsibilities in Nova Scotia. Preceding this Annual Conference is a one-day meeting of all Provincial and the Federal Legislative Auditors, to review with the Foundation Executive specific research and training initiatives and related matters.

One of our staff was successful in the 1987 uniform final examination of the Canadian Institute of Chartered Accountants. He was the last to qualify for the examination, prior to our shifting the student training program. In addition, one of our students has passed all of the qualifying examinations for the Certified Management Accountant designation and has only to complete the two-year required term of service to officially receive his designation. Both of these persons are to be congratulated for attaining their professional accounting designations, a very commendable achievement on their part.

Several of our staff participate in various professional organizations, serving on councils and committees. I believe that this type of role helps develop the individual as well as providing opportunities to obtain skills and knowledge beneficial to our Office work.

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APPENDICES

APPENDIX I

The Auditor General Act

Section 7

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purpose or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(c) money has been expended for the purposes for which it was appropriated by the Legislature, and the expenditures have been made as authorized; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Section 8

(1) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province; or

(b) any public money was not duly accounted for and paid into the Consolidated Fund; or

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature; or

(d) an expenditure was not authorized or was not properly vouched or certified; or

(e) there has been a deficiency or loss through fraud, default or mistake of any person; or

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money;

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a), (b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

Section 16

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) supply to the Auditor General annually a copy of all financial statements and reports prepared by them relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

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APPENDIX II

Audits Performed by Auditor General
In Government Departments

Attorney General
- Criminal Injuries Compensation Board
- Legal Aid Federal Claim
- Legal Aid Trust Fund
- Young Offenders Act

Consumer Affairs
- Department operations

Culture, Recreation and Fitness
- Department operations

Development
- Department operations

Education
- Museum claims
- School grants
- Student Aid

Finance
- Additional appropriations
- Pension Benefits Act
- Disbursements
- Pension fund investments
- Payroll
- Securities count

Health
- Computer operations and systems
- Hospital construction grants
- Payments to institutions

Labour
- National Training Act claim

Mines and Energy
- Canada-Nova Scotia Agreement on Oil Substitution

Municipal Affairs
- Department operations

Social Services
- Canada Assistance Plan claim
- Family benefits
- Grants and assistance

Transportation

Capital equipment inventory
Equipment parts inventories
Registry of Motor Vehicles
Department revenue systems
Canso causeway operations

Note — *The above tabulation does not include the 10 Special Departmental Reviews described in the Section of this Report beginning on page 78.*

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APPENDIX III

Audits Performed by Auditor General
Crown Corporations, Boards, Commissions, and Funds

Agricultural Organizations
- Community Pastures Board
- Nova Scotia Crop and Livestock Insurance Commission
- Provincial Grain Commission

Education Institutions
- Atlantic Provinces Special Education Authority
- Technical University of Nova Scotia

Hospitals
- Camp Hill Hospital
- Cancer Treatment and Research Foundation of Nova Scotia
- Halifax Infirmary
- Halifax Infirmary Foundation
- Nova Scotia Hospital
- Victoria General Hospital

Lending Organizations and Funds
- Housing Development Fund
- Industrial Expansion Fund
- Industrial Loan Fund
- Nova Scotia Farm Loan Board
- Nova Scotia Fisheries Development Fund
- Nova Scotia Housing Development Corporation
- Small Business Development Corporation

Pensions
- Members' Retiring Allowance Account
- Nova Scotia Teachers' Pension Fund
- Public Service Superannuation Fund

Regulatory Bodies
- Board of Commissioners of Public Utilities
- Nova Scotia Lottery Commission
- Public Accountants Board of the Province of Nova Scotia

Other
- Atlantic Industrial Research Institute
- Canso Superport Limited
- Clairtone Holdings Limited
- Nova Magnetics Limited
- Novaco Limited
- Nova Scotia Legal Aid Commission
- Nova Scotia Research Foundation Corporation

Nova Scotia Talent Trust
Public Trustee
107375 Holdings Limited

Note — *The above tabulation does not include the one follow-up and three Special Crown Corporations described in the section of this Report beginning on page 67.*

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APPENDIX IV

Audits Performed by Private Sector Auditors
Crown Corporations, Boards, Commissions and Agencies

Check Inns Limited
Council of Maritime Premiers
Halifax-Dartmouth Bridge Commission
Industrial Estates Limited
Nova Scotia Liquor Commission
Nova Scotia Liquor License Board
Nova Scotia Municipal Finance Corporation
Nova Scotia Power Corporation
Nova Scotia Rehabilitation Centre Corporation
Nova Scotia Resources Limited
Schooner Bluenose Foundation
Sherbrooke Restoration Commission
Sydney Steel Corporation
Tidal Power Corporation
Trade Centre Limited
Waterfront Development Corporation Limited
Workers' Compensation Board

Hospitals
(Agencies as defined in Auditor General Act)

Eastern Memorial Hospital
Eastern Shore Memorial Hospital
Glace Bay Community Hospital
Inverness Consolidated Memorial Hospital
Northside Harbor View Hospital
Strait-Richmond Hospital
Sydney City Hospital
Twin Oaks Memorial Hospital

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